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ABSTRACT

This book helps students make essential connections between economics and civics/government by asking the philosophical questions of government's role in the economy and the relationship between economic freedom and political freedom. The set of lessons include: (1) "How Has the Constitution Shaped the Economic System in the United States?"; (2) "Is Economic Freedom a Necessary Condition for Political Freedom?"; (3) "What are the Costs and Benefits of Voting?"; (4) "What are the Economic Functions of Government?"; (5) "How Has Federal Government Spending Changed?"; (6) "How Can Changes in the Federal Government's Budget Stabilize the Economy?"; (7) "Who Should Control the Money Supply--the U.S. Congress or the Federal Reserve?"; (8) "To What Extent Do Economic Conditions Determine the Outcome of Presidential Elections?"; (9) "How Are Economic Solutions to Pollution Different from Political Solutions?"; (10) "Why Does the Federal Government Give Money to State and Local Governments?"; (11) "What Can the Government Do About Unemployment?"; (12) "Why Isn't Income Distributed More Equally?"; (13) "Whose Interest is Being Served?"; (14) "Do Economic Forces Lead Immigrants to the United States?"; (15) "Why Would Governments Limit International Trade?"; and (16) "How Can Economic Sanctions Be Part of U.S. Foreign Policy?" Each lesson includes core concepts, objectives, materials needed, lesson description, procedure, and closure. (EH)

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Civics and Government

FOCUS on Economics

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Economics America
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A partnership of education, business, and labor

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FOREWORD

Civics and Government: Focus on Economics, a core volume in a new generation of National Council publications, is dedicated to increasing the economic literacy of *all* students. The *Focus* publications, the new centerpiece of **Economics**America, build on almost five decades of success in delivering economic education to America's students.

The *Focus* series is both new and innovative, using economics primarily to enhance learning in subjects such as history, geography, civics, and personal finance. Activities are interactive, reflecting the belief that students learn best through active, highly personalized experiences with economics. Applications of economic understanding to real world situations and contexts dominate the lessons. In addition, the lessons explicitly teach the voluntary national standards in economics, outlined in the National Council's *A Framework for Teaching Basic Economic Concepts*.

Is economic freedom a necessary condition for political freedom? What can the government do about unemployment? Why would governments limit international trade? Students use questions such as these to help them make essential connections between economics and civics/ government. They discover that while economic freedom may be a prerequisite for political freedom, it is not the only prerequisite; that there are various policies government can pursue to alleviate unemployment; and that some groups convince their governments to restrict the free flow of trade through a variety of devices such as import quotas, tariffs, and nontariff barriers.

Michael Watts, Professor of Economics, Purdue University, and Senior Fellow, National Council on Economic Education, reviewed the manuscript and offered many valuable suggestions. The authors and the publisher are responsible for the final publication.

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Joan Sullivan Baranski
Publisher

CIVICS AND GOVERNMENT FOCUS ON ECONOMICS

Overview/Rationale

This publication provides high school social studies teachers with lesson plans that highlight the economics content within topics they traditionally teach in a government or civics class.

The topics and concepts in the lessons were selected to complement and to be consistent with the content of the following documents: (1) the *National Standards for Civics and Government* developed by the Center for Civic Education; (2) *A Framework for Teaching Basic Economic Concepts* published by the National Council on Economic Education; and (3) the major high school civics and government textbooks.

The authors of *Civitas: A Framework for Civic Education* emphatically call for the enhancement of the economics content of the high school civics and government courses by asserting that political choices are "...replete with the ideas–and choices–of economics... Like ignorance in general, ignorance in economics in today's world forms a prison from which citizens–if they are to be adequate judges of public discussion–must be given the tools to escape." The authors of this publication expect that these lessons will permit teachers and students to make the essential connections between economics and civics/government.

The lessons incorporate a variety of instructional procedures that include cooperative learning groups, skits, research projects, data analysis, and classroom debates. The lessons are short. No more than one or two class periods are needed to complete any one of them. They are self-contained and designed to be used individually to supplement what the teacher is already doing in the classroom.

Acknowledgments

The lessons in this publication have been reviewed and tested by high school teachers in Nebraska and Rhode Island. They also have been reviewed for economics content accuracy and for civics/government content accuracy. The authors thank the following teachers and civics and economic educators who participated in the development of these curriculum materials:

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Ability Guidelines and Flexibility of Text

Civics and Government: Focus on Economics is suitable for a wide variety of curriculum needs and teaching strategies. The lessons provide for great flexibility in teaching and learning–offering ample support for students of different ability levels. As there is no single approach or method adequate in all situations, the authors suggest many approaches for teachers to choose from to best suit the needs of their individual courses and to match the abilities, interests, and backgrounds of students. In general, the lessons are for all students.

Key to Ability Levels

The following coding system identifies activities suitable for students of various ability levels:

- ★ all students–basic course material
- ■ average and above average students
-) average and below average students

PLANNING CHART

LESSON	CONTENT	PROCEDURES	ADVANCE PREPARATION
Lesson 1 How Has the Constitution Shaped the Economic System in the United States?	Characteristics of a market economy and provisions in the Constitution that support it	Class discussion Small group task	Prepare transparencies and activities
Lesson 2 Is Economic Freedom a Necessary Condition for Political Freedom?	Exploration of the links between economic freedom and political freedom	Class discussion in large and small groups	Prepare transparencies and activities
Lesson 3 What Are the Costs and Benefits of Voting?	Cost/benefit analysis used to explain voter behavior and to develop strategies for increasing voter turnout	Class discussion Data analysis	Prepare transparencies and activities
Lesson 4 What are the Economic Functions of Government?	Six economic functions of government and identification and examples of each of these functions. The role of government in a market economy	Class discussion Small group task	Prepare transparencies and activities Obtain copies of newspapers and/or newsmagazines
Lesson 5 How has Federal Government Spending Changed?	The increasing portion of the Federal budget used for transfer payments and interest payments	Class discussion Small group task Graphing activity	Prepare transparencies and activities Get graph paper
Lesson 6 How Can Changes in the Federal Government's Budget Stabilize the Economy?	Government policies to influence the income/spending chain	Class discussion Student skits	Prepare activities
Lesson 7 Who Should Control the Money Supply–the U.S. Congress or the Federal Reserve?	Components of the money supply; creation of money through bank loans, who should control this process	Class discussion Auction	Prepare transparencies and auction money Get two Granola Bars

PLANNING CHART (continued)

LESSON	CONTENT	PROCEDURES	ADVANCE PREPARATION
Lesson 8 To What Extent Do Economic Conditions Determine the Outcome of Presidential Elections?	Evaluation of economic performance and effect of economic performance on presidential elections	Class discussion Data analysis	Prepare transparency and activity Have students question families about reasons for favoring a candidate
Lesson 9 How are Economic Solutions to Pollution Different from Political Solutions?	Definition of externalities, identification of solutions to air pollution in Los Angeles; Distinctions between political and market solutions	Class discussion	Prepare transparencies and activities
Lesson 10 Why Does the Federal Government Give Money to State and Local Governments?	Federal grants to encourage certain state and local spending	Class discussion Small group case study	Prepare activity
Lesson 11 What Can the Government Do About Unemployment?	Three types of unemployment and the different types of government policies for reducing unemployment	Class discussion Small group task	Prepare transparencies and activities
Lesson 12 Why Isn't Income Distributed More Equally?	Reasons for differences in income, the pros and cons of government redistribution policies	Class discussion Small group task Debates	Prepare transparencies and activities
Lesson 13 Whose Interest is Being Served?	Special interest issues and their effects on government policies	Class discussion Role playing	Prepare role-playing cards Obtain playing cards
Lesson 14 Do Economic Forces Lead Immigrants to the United States?	Reason immigrants come to the United States	Student interviews Class discussion Small group task	Identify immigrants and have students conduct interviews Prepare transparency and activity

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PLANNING CHART (continued)

LESSON	CONTENT	PROCEDURES	ADVANCE PREPARATION
Lesson 15 Why Would Governments Limit International Trade?	U.S. international trade patterns; winners and losers; and pros and cons of barriers to trade	Class discussion Small group case study	Prepare transparencies and activities Have students identify imported products at home
Lesson 16 How Can Economic Sanctions be Part of U.S. Foreign Policy?	Examples of how the United States has used sanctions as a part of its foreign policy; research to determine if these policies have been successful	Class discussion Research project	Prepare transparencies and activities Make arrangements for research project

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UNIT I
POLITICAL FOUNDATIONS OF A MARKET ECONOMY

LESSON 1
HOW HAS THE CONSTITUTION SHAPED THE ECONOMIC SYSTEM IN THE UNITED STATES?

INTRODUCTION

Constitutions are economic documents as well as political documents. This is certainly true of the Constitution of the United States. Our nation's founders believed that economic freedom as well as political freedom are essential for national prosperity and growth. Accordingly, they included numerous provisions in the Constitution that support and encourage the operation of a market economy. Thus, as the basic "law of the land," the U.S Constitution defines the essential features of our economy.

CONCEPTS

Private Property
Freedom of Enterprise and Choice
Motive of Self-interest
Competition
Markets and Prices
Limited Role of Government

OBJECTIVES

◆ Describe the six basic characteristics of a market economy

◆ Identify some provisions of the U.S Constitution that foster and support a market economy

◆ Match provisions in the Constitution with the basic characteristics of a market economy

◆ Contrast the economic provisions of the U.S. Constitution with the economic provisions of the Constitution of the People's Republic of China

LESSON DESCRIPTION

Students provide their own examples of the six characteristics of a market economy as they exist in the United States today. Then they see how the U.S. Constitution supports those characteristics by reading relevant portions of the Constitution, and matching these provisions with the six characteristics of a market economy. The lesson concludes by having the students read and discuss relevant portions of the Constitution of the People's Republic of China. They then write essays contrasting the impact of the economic provisions of the two constitutions on the characteristics of each nation's economy.

TIME REQUIRED

One class period.

MATERIALS

★ One copy for each student of Activity 1, "Characteristics of a Market Economy"
■ One copy for each student of Activity 2, "Economic Provisions in the U.S. Constitution"
■ One copy for each student and a transparency of Activity 3, "Matching Provisions of the U.S. Constitution with Basic Characteristics of a Market Economy"
■ One copy for each student of Activity 4, "Economic Provisions in the Constitution of The People's Republic of China"

PROCEDURE

1. Distribute copies of Activity 1. Explain the meaning of each characteristic with an example, and then elicit additional examples from the class for each characteristic.

2. Explain to the class that the U.S. Constitution is an economic document as well as a political one. Distribute copies of Activity 2. Discuss the selected excerpts with the class, making sure the students understand the meaning of each by asking students to put them in their own terms.

3. Distribute copies of Activity 3. Display the transparency of Activity 3 for discussion and summary purposes. Divide the class into six groups by market economy characteristics. Have each group discuss the potential matches and come to a consensus.

★ all students–basic course material
■ average and above average students
○ average and below average students

4. Record the matches on the overhead display, eliciting discussion and agreement from the class as you do so, and reinforce the idea that the founders intended to have the Constitution protect and support a market economy.

5. Read to students The Preamble to the Constitution.

> We the people of the United States, in order to form a more perfect Union, establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity, do ordain and establish this Constitution for the United States of America.

Write the phrase "promote the general welfare" on the chalkboard. Explain how this phrase has been used to justify government intervention in our market economy, for example: minimum wage laws, social security, unemployment compensation, and occupational safety regulations.

CLOSURE

Distribute copies of Activity 4, "Economic Provisions in the Constitution of The People's Republic of China." After the students have read the copy, discuss with them how each economic provision in this document defines the economic role the government in China will play. As an out-of-class assignment, have each student write an essay explaining how the differing provisions in the two nation's constitutions can and have resulted in different types of economic freedoms and systems.

ACTIVITY 1
CHARACTERISTICS OF A MARKET ECONOMY

Name _____

PRIVATE PROPERTY

Labor resources, natural resources, capital resources (e.g., equipment and buildings), and the goods and services produced in the economy are largely owned by private individuals and private institutions rather than by government. This private ownership combined with the freedom to negotiate legally binding contracts permits people, within very broad limits, to obtain and use resources as they choose.

FREEDOM OF ENTERPRISE AND CHOICE

Private entrepreneurs are free to obtain and organize resources in the production of goods and services and to sell them in markets of their choices. Consumers are at liberty to buy that collection of goods and services that best satisfies their economic wants. Workers are free to seek any jobs for which they are qualified.

MOTIVE OF SELF-INTEREST

The "Invisible Hand" that is the driving force in a market economy is each individual promoting his or her self-interest. Consumers aim to get the greatest satisfaction from their budgets; entrepreneurs try to achieve the highest profits for their firms; workers want the highest possible wages and salaries; and owners of property resources attempt to get the highest possible prices from the rent and sale of their resources.

COMPETITION

Economic rivalry means that buyers and sellers are free to enter or leave any market and that there are buyers and sellers acting independently in the marketplace. It is competition, not government regulation, that diffuses economic power and limits the potential abuse of that power by one economic unit against another as each attempts to further its own self-interest.

SYSTEM OF MARKETS AND PRICES

Markets are the basic coordinating mechanisms in our type of economy, not central planning by government. A market brings buyers and sellers of a particular good or service into contact with one another. The preferences of sellers and buyers are registered on the supply and demand sides of various markets, and the outcome of these choices is a system of product and resource prices. These prices are guideposts on which participants in markets make and revise their free choices in furthering their self-interests.

LIMITED GOVERNMENT

A competitive market economy promotes the efficient use of its resources. As a self-regulating and self-adjusting economy, no significant economic role for government is necessary. However, a number of limitations and undesirable outcomes associated with the market system result in an active, but limited economic role for government.

ACTIVITY 2
ECONOMIC PROVISIONS IN THE U.S. CONSTITUTION

Name _____

COMMERCE CLAUSE

Article I, Section 8 states that Congress shall have the power "To regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes;..."

COINAGE CLAUSES

Article I, Section 8 states that Congress shall have the power "To coin Money, regulate the value thereof, ..." and "To provide for the Punishment of counterfeiting the Securities and current Coin of the United States;..." Article I, Section 10 gives Congress this power exclusively by stating that "No State shall...coin Money;..."

COPYRIGHT CLAUSES

Article I, Section 8 states that Congress shall have the power "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writing and Discoveries;..."

CONTRACT CLAUSES

Article I, Section 9 states that "No Bill of Attainder or ex post facto Law shall be passed..." by Congress. Article I, Section 10 states that "No state shall...pass any Bill of Attainder, ex post facto Law, or Law impairing the Obligations of Contracts,..."

EXPORT CLAUSES

Article I, Section 9 states that "No Tax or Duty shall be laid on Articles exported from any State...", and Article I, Section 10 states that " No State shall without the Consent of the Congress, lay any Imposts or Duties on Imports or Exports,..."

SEARCHES AND SEIZURES

Amendment IV states that "The right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated,..."

DUE PROCESS

Amendment V states that "No person shall...be deprived of life, liberty, or property, without due process of the law;..." and Amendment XIV, Section 1 states "nor shall any State deprive any person of life, liberty, or property, without due process of law;..."

RESERVED RIGHTS AND POWERS

Amendment IX states that "The enumeration in the Constitution, of certain rights, shall not be construed to deny or disparage others retained by the people." and Amendment X states "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.

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ACTIVITY 3
MATCHING PROVISIONS OF THE U.S. CONSTITUTION WITH BASIC CHARACTERISTICS OF A MARKET ECONOMY

Name _____

	Art.I sec.8	Art.I sec.9	Art.I sec.10	Amd. IV	Amd. V	Amd. IX	Amd. X	Amd. XIV
Private Property								
Freedom of Enterprise and Choice								
Motive of Self-interest								
Competition								
Markets and Prices								
Limited Government								

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SUGGESTED ANSWERS TO ACTIVITY 3
MATCHING PROVISIONS OF THE U.S. CONSTITUTION WITH BASIC CHARACTERISTICS OF A MARKET ECONOMY

Name _____

	Art.I sec.8	Art.I sec.9	Art.I sec.10	Amd. IV	Amd. V	Amd. IX	Amd. X	Amd. XIV
Private Property	X	X	X	X	X			X
Freedom of Enterprise and Choice	X	X	X					
Motive of Self-interest	X							
Competition	X							
Markets and Prices	X							
Limited Government		X	X	X	X	X	X	X

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ACTIVITY 4
ECONOMIC PROVISIONS IN THE CONSTITUTION OF THE PEOPLE'S REPUBLIC OF CHINA

Name _____

Preamble

"... the fundamental task of the state is, step by step, to bring about the socialist industrialization of the country and step by step, to accomplish the socialist transformation of agriculture, handicrafts and capitalist industry and commerce. ..."
and
"... the necessary conditions have been created for planned economic construction and gradual transition to socialism."

CHAPTER ONE General Principles

Art. 5. "...basic forms of ownership of means of production exists in the People's Republic of China: state ownership...; co-operative ownership, that is a collective ownership..."

Art. 6. "The state sector of the economy is a socialist sector,... It is the leading force in the national economy and the material basis on which the state carries out socialist transformation. The state ensures priority for the development of the state sector of the economy."

Art. 8. "... the policy of the state towards rich-peasant economy is to restrict and gradually eliminate it."

Art.10. "...the policy of the state towards capitalist industry and commerce is to use, restrict and transform them...gradually replacing capitalist ownership by the whole people;..."

Art.13. " The state may... buy, requisition or nationalize land and other means of production..."

Art. 14. "The state forbids any person to use his private property to the detriment of the public interest."

Art. 15. "By economic planning, the state directs the growth and transformation of the national economy..."

Art. 16. "Work is a matter of honor for every citizen of the People's Republic of China who is able to work."

CHAPTER TWO The State Structure

Section I. The National People's Congress

Art. 27. "The national People's Congress exercises the following functions and powers:

...(9) to decide on the national economic plans;..."

Section III. The State Council

Art. 49. "The State Council exercises the following functions and powers:

...(7) to put into effect the national economic plans...

...(8) to control foreign and domestic trade;..."

CHAPTER THREE Fundamental Rights and Duties of Citizens

Art. 91. "Citizens of the People's Republic of China have the right to work. To guarantee enjoyment of this right, the state, by planned development of the national economy, gradually creates more employment, and better working conditions and wages."

LESSON 2
IS ECONOMIC FREEDOM A NECESSARY CONDITION FOR POLITICAL FREEDOM?

INTRODUCTION

Americans enjoy a substantial amount of both political freedom and economic freedom. Many economists, political scientists, historians, and philosophers believe there is a relationship between these two types of freedom. In most countries where individuals are free to make political decisions, they are also free to make economic decisions. In those countries where individual economic decision making is extensive; the power of the state to make decisions is limited. However, while economic freedom may be a prerequisite for political freedom, it is not the only prerequisite.

CONCEPTS

Market Economic Systems
Economic Freedom
Political Freedom
Role of Government

OBJECTIVES

◆ Identify examples of political, economic, and personal freedoms

◆ Hypothesize the relationship between economic freedom and political freedom

◆ Compare these hypotheses with the conclusions of a selected group of economists, philosophers, theologians, historians, and social scientists

LESSON DESCRIPTION

Students explore the relationship between economic freedom and political freedom. Do countries that provide for political freedom also provide for economic freedom? Is there a connection between decentralized economic decision making and decentralized political decision making? Students make inferences about this relationship in the beginning of the lesson; then they use selected excerpts to develop a further understanding of these relationships.

TIME REQUIRED

One class period

MATERIALS

■ Activity 1, "The Links Between Political Freedom and Economic Freedom"
■ Activity/Visual 1, "Friedman's Reservation"

PROCEDURE

1. Ask students to identify freedoms that Americans enjoy; make a list of their responses on the chalkboard. Ask students to categorize their responses as examples of political, personal, or economic freedom. If there are only a few economic freedoms identified, suggest the following: freedom to buy what you want, freedom to produce and sell what you want, freedom to choose your occupation, freedom to save and invest as you choose.

2. Have students speculate about the possible relationships between political freedom and economic freedom. Can they imagine a country where there is political freedom but no economic freedom; or a country where there is economic freedom but no political freedom? Emphasize the importance of the individual and how both freedoms limit the role of government in making decisions.

3. Divide the class into small groups, distribute Activity 1. Ask students to read the handout and then discuss the following question: How does each author explain the relationship between political freedom and economic freedom?

4. Have each group share its conclusions with the rest of the class. Probe to be certain that students understand that Paul Samuelson's position differs from the others in the activity.

◆ all students–basic course material
■ average and above average students
▲ average and below average students

CLOSURE

Show Activity/Visual 1, "Friedman's Reservation." Have students express Friedman's reservation in their own words. What precautions must we take when we attempt to link economic freedom and political freedom according to Friedman and Samuelson?

ACTIVITY 1
THE LINKS BETWEEN POLITICAL FREEDOM AND ECONOMIC FREEDOM

(paraphrased excerpts from the works cited)

Name _____

HISTORIANS' VIEW

By the mid-19th century, Western societies had given businesses certain rights to make a number of decisions that had been made by political authorities in most other societies. Individuals were authorized to form businesses with less and less political restriction. Numerous economic choices were open to businesses as to the products it would make, how it would make them, how it would sell them, and the prices it would charge.

The West's sustained economic growth began with the emergence of an economy with a high degree of freedom from political control, and this freedom spread to other fields such as science, art, literature, and education.

Nathan Rosenberg and L. E. Birdzell, Jr., *How the West Grew Rich*, New York: Basic Books, 1986.

A SOCIOLOGIST'S VIEW

If a capitalist economy is subjected to increasing degrees of state control, a point will be reached at which democratic governance becomes impossible. However, if a capitalist economy generates economic growth from which most of the people benefit, pressures for political democracy are likely to appear.

Peter Berger, *The Capitalist Revolution*, New York: Basic Books, 1986.

A PHILOSOPHER'S VIEW

By increasing the wealth of nations capitalism has enhanced individual worth, increased political freedoms, and raised the level of culture.

The idea that each person possesses certain inalienable political and economic rights, and that an important responsibility of society is to protect those rights, added new meanings to the traditional concept of humanism.

Freedom of thought is sustained by freedom of the market; indeed, the former is very often impossible without the latter.

Bernard Murchland, *Humanism and Capitalism*, Washington, D.C.: American Enterprise Institute, 1984.

A THEOLOGIAN'S VIEW

In the conventional view, the link between a democratic political system and a market economy is merely an accident of history. My argument is that the link is stronger: political democracy is compatible in practice only with a market economy.

Democracy and capitalism both proceed from identical historical impulses: The desire to limit the power of the state and to liberate the energies of individuals.

Capitalism naturally leads to democracy, for citizens who are economically free soon demand political freedoms.

Michael Novak, *The Spirit of Democratic Capitalism*, Lanham, MD: Madison Books, 1991.

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ACTIVITY 1 (continued)

SOME ECONOMISTS' VIEWS

Personal and economic freedoms are inseparable. Once you start down the road to government regulation and planning of the economy, freedom to speak and select political leaders will be jeopardized.

The system of private property is the most important guarantee of freedom, not only for those who own property, but scarcely less for those who do not.

Friedrich von Hayek, *The Road to Serfdom,* Chicago: University of Chicago Press, 1944.

What makes American society so adaptable is that the economic system and the political system discipline each other; each limits the excesses and correct the deficiencies of the other.

Herbert Stein, *Agenda for the Study of Macroeconomic Policy,* Washington, D.C.: American Enterprise Institute, 1982.

Economic arrangements play a dual role in the promotion of a free society. On the one hand, freedom in economic arrangements is itself a part of freedom broadly understood, so economic freedom is an end in itself. In the second place, economic freedom is also an indispensable means toward the achievement of political freedom.

I know of no example in time or place of a society that has been marked by a large measure of political freedom, and that has not also used something comparable to a free market to organize the bulk of economic activity.

Milton Friedman, *Capitalism and Freedom,* Chicago: University of Chicago Press, 1962.

I have little confidence in the attempts to link political rights with any one economic system. Economists, and other social scientists, do not know very much about the complex relationships between human rights and different types of economic systems.

A modern democracy, through the careful use of accumulated wisdom, can repair problems of a market economy and preserve political freedom.

Paul Samuelson, *Economics,* 12 ed., New York: McGraw-Hill, 1985.

ACTIVITY/VISUAL 2
FRIEDMAN'S RESERVATION

History suggests only that capitalism is a necessary condition for political freedom. Clearly it is not a sufficient condition... It is...clearly possible to have economic arrangements that are fundamentally capitalist and political arrangements that are not free.

Milton Friedman, *Capitalism and Freedom*, Chicago: University of Chicago Press, 1962.

From *Civics and Government: Focus on Economics*, © National Council on Economic Education, New York, NY

LESSON 3
WHAT ARE THE COSTS AND BENEFITS OF VOTING?

INTRODUCTION

During the 1970s and 1980s, voter turnout in the U.S. presidential elections was lower than in the previous two decades. Overall U.S. voter turnout rates are lower than those of most other democracies; for example, in Belgium, 94% and in Australia, 90% of eligible voters participate in national elections. Cost/benefit analysis provides a way to explain these trends and identify policies to bring about higher voter turnout rates.

CONCEPTS

Cost/Benefit Analysis
Rational Behavior
Political Participation

OBJECTIVES

◆ Identify trends in voter turnout in U.S. Presidential elections since 1952

◆ Use cost/benefit analysis to explain voter turnout rates and to develop plans for increasing voter turnout

LESSON DESCRIPTION

Students examine voter participation rates in the United States since 1952. Cost/benefit analysis is introduced to help explain voter participation rates. Students identify ways to reduce the costs of voting and increase the benefits of voting to increase the overall voter participation rate.

TIME REQUIRED

One class period

MATERIALS

★ Activity/Visual 1, "Turnout in U.S. Presidential Elections 1952–1992"
★ Activity 1, "Voter Participation in the 1992 Presidential Election"

PROCEDURE

1. Show Activity/Visual 1, "Turnout in U.S. Presidential Elections, 1952–1992." Ask students to examine the graph and make observations about voter participation in the 1950s and 1960s as compared to the 1970s and 1980s. Ask students to explain why they think participation rates declined. Why do they think the participation rate rose in 1992?

2. Explain that voter participation rates can be analyzed by using cost/benefit analysis.

3. Have students brainstorm the costs of voting. These might include meeting residency requirements, registering to vote, gathering information about candidates and issues, finding and going to the polls, taking time off from work, getting up early to vote before going to work, and hiring a baby sitter.

4. Have students brainstorm some of the benefits received from voting. These might include participating in the maintenance of the political system, complying with the norms of good citizenship, fulfilling moral obligations, helping ensure the election of a candidate or political party whose ideas you support.

5. Have students speculate on the relationship between costs and benefits of voting and voter turnout rates. Point out that when costs go up and/or perceived benefits go down, participation rates fall. If the costs of voting exceed the benefits of voting, then one could conclude that not voting is indeed rational behavior.

6. Have students continue the cost/benefit analysis by looking at ways to increase voter participation. Explain that the Voter Registration Act of 1992, "The Motor Voter Act," reduced some of the costs of voting by making registration easier and more convenient. Should this result in higher or lower participation rates?

7. Have students brainstorm other ways of reducing the costs of voting and decide if any of these should be adopted. These might include:
   a. Election Day registration
   b. Lifetime registration

★ all students–basic course material
■ average and above average students
● average and below average students

c. Evening and Saturday registration hours
d. Making election day a holiday or moving it to Saturday or Sunday
e. Longer voting hours
f. Electronic voting sites
g. Absentee voting options for all voters
h. Free transportation to the polls

8. Have students brainstorm increasing the benefits of voting. One example was MTV's "Rock the Vote" promotion campaign during the 1992 presidential election. Other examples might include:

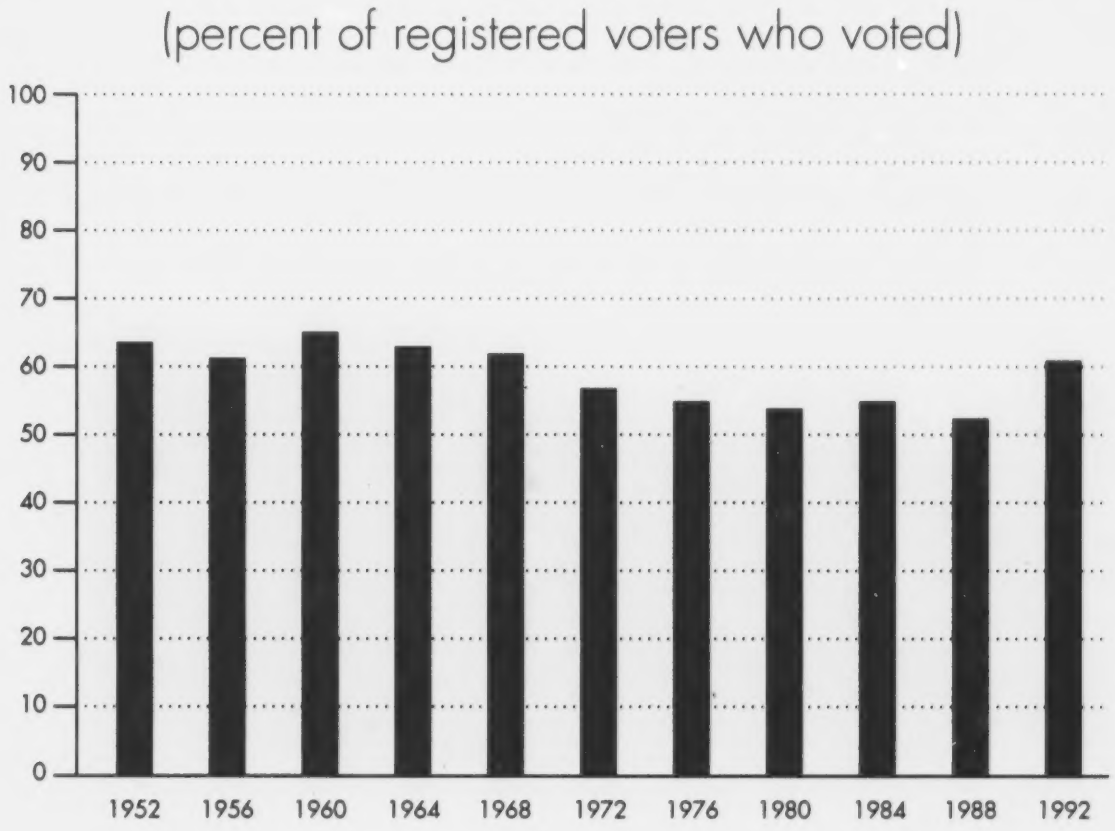
a. Compulsory voting laws (used in Australia, Belgium, Italy, Argentina, Costa Rica, Greece, Singapore, and Venezuela)
b. Paying people to vote
c. Entering voters in a lottery for prizes if they vote
d. Strengthening political parties and voters' identification with parties
e. Bipartisan get-out-the-vote campaigns
f. Developing more positive attitude toward politics and voting in high school government classes
g. Encouraging more effective special interest group campaigns to encourage voter turnout

Have students discuss the appropriateness of these approaches to increasing the benefits of voting; for example, would a "get-out-the vote" campaign be desirable if large numbers of uninformed voters go to the polls? Ask them to decide which, if any, should be carried out. Have students discuss whether lower voter turnout rates really are a problem. Should any actions be taken to increase benefits, or reduce the costs, of voting to insure higher voter participation rates?

CLOSURE

Distribute Activity 1, "Voter Participation in the 1992 Presidential Election." Have students identify participation rates for some of the categories. Ask students to explain differences in voter participation using cost/benefit analysis. For example, why might voters with four or more years of higher education perceive either higher benefits or lower costs than those with lesser education. Why might Hispanic voters' costs be higher or benefits be lower than other voters?

ACTIVITY/VISUAL 1
TURNOUT IN U.S. PRESIDENTIAL ELECTIONS (1952-1992)



Source: *Statistical Abstract of the United States.*

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ACTIVITY 1
VOTER PARTICIPATION IN THE 1992 PRESIDENTIAL ELECTION

Name _____

	Voting Age Population (million)	Percentage Reporting They Registered	Percentage Reporting They Voted
TOTAL	**185.7**	**68.2**	**61.3**
18-20 yrs. old	9.7	48.3	38.5
21-24 yrs. old	14.6	55.3	45.7
25-34 yrs. old	41.6	60.6	53.2
35-44 yrs. old	39.7	69.2	63.6
45-64 yrs. old	49.1	75.3	70.0
65-over	30.8	78.0	70.1
Male	88.6	66.9	60.02
Female	97.1	69.3	62.3
White	157.8	70.1	63.6
Black	21.0	63.9	54.0
Hispanic	14.7	32.9	28.9
Northeast	38.3	67.0	61.2
Midwest	44.1	74.6	67.2
South	63.7	67.2	59.0
West	39.3	63.6	58.5
8 years school or less	15.4	43.9	35.1
1-3 yrs. H.S.	21.0	50.4	41.2
4 yrs. H.S.	65.3	64.9	57.5
1-3 yrs. Univ.	46.7	75.4	68.7
4 yrs. Univ or more	37.4	84.8	81.0

Source: *Statistical Abstract of the United States.*

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UNIT II
THE ROLE OF GOVERNMENT IN A MARKET ECONOMY

LESSON 4
WHAT ARE THE ECONOMIC FUNCTIONS OF GOVERNMENT?

INTRODUCTION

In order to ensure and support economic freedom as well as political freedom, the founders of our nation envisioned a very limited role for the government in economic affairs. In a market economy, such as the one established by our Constitution, most economic decisions are made by individual buyers and sellers, not by the government.

Economists, however, identify six major functions of governments in market economies. Governments provide the legal and social framework, maintain competition, provide public goods and services, redistribute income, correct for externalities, and stabilize the economy.

Citizens, interest groups, and political leaders disagree about how large a scope of activities the government should perform within each of these functions. Over time, as our society and economy have changed, government activities within each of these functions have expanded.

OBJECTIVES

◆ Identify the six economic functions of government

◆ Classify examples of government actions and policies within various economic functions

◆ Identify and evaluate two different positions on the role of government in the economy

LESSON DESCRIPTION

The six economic functions of government are presented to students. Students categorize a series of newspaper headlines as examples of each of the six functions and locate additional examples in current newspapers and newsmagazines. The lesson concludes with a discussion of how limited the economic functions of government should be.

CONCEPTS

Role of Government

TIME REQUIRED

Two class periods

MATERIALS

★ Activity/Visual 1, "Economic Functions of Government"
★ Activity 1, "Economic Functions of Government Worksheet"
★ Activity 2, "Newspaper Headlines"
■ Activity 3, "What Role Should The Government Play in the Economy?"
Copies of recent newspapers and/or news magazines

PROCEDURE

Day One

1. Ask students to identify examples of the activities that local, state, and national governments carry out in the U.S. economy; for example: provide for national defense, collect social security taxes, pay social security benefits, build highways, and insure quality of food and medicines. Make a list of these activities on the chalkboard.

2. Show Activity/Visual 1 and explain each of the six functions.

Maintaining Legal and Social Framework
Example: Create laws and provide courts, provide information and services to help economy function better, establish a monetary system, define and enforce property rights.

Maintaining Competition
Example: Create and enforce antitrust laws; regulate natural monopolies.

Providing Public Goods and Services
Example: Provide goods and services that markets are unable or unwilling to provide, such as national defense

★ all students–basic course material
■ average and above average students
◑ average and below average students

Redistributing Income
Example: Higher income tax rates for rich than for poor, provide social security, and aid to dependent children, Medicare, Medicaid.

Correcting for Externalities
Example: Taxes to reduce negative externalities, such as environmental pollution; subsidies to encourage positive externalities, such as education. Externalities exist when some of the costs or benefits associated with the production or consumption of a product "spill over" to third parties other than the direct producer or consumer of the product.

Stabilizing the Economy
Example: Use government budgets and/or the money supply to promote economic growth, control inflation, and reduce unemployment.

3. Have students categorize some of their activities listed in Step 1 as examples of the economic functions of government.

4. Tell students that all levels of government work to maintain the legal and social framework, and provide public goods and services; that state and national governments have the major responsibility for maintaining a competitive framework, redistributing income, and dealing with externalities; and that the national government has the responsibility for stabilizing the economy.

5. Distribute copies of Activity 1, "Economic Functions of Government Worksheet," and Activity 2, "Newspaper Headlines," to groups of students. Have students classify each of the headlines under the appropriate economic function category. Explain that some headlines may represent more then one function. Check their work to be certain they understand each of the six functions.

6. When students have completed the classification activity, distribute copies of recent newspapers/newsmagazines. Have students locate and classify three additional headlines that illustrate the economic functions of government.

DAY TWO

1. Tell students that in a mixed market economy like that of the United States, where both markets and government decisions play important roles, citizens often do not agree on the role of government in the economy and how it should carry out the six economic functions.

2. Distribute Activity 3, "What Role Should The Government Play in The Economy?" to the small groups. Ask the students to read the activity and summarize each view.

3. Check to see that students can summarize each viewpoint. Ask students to take a personal stand on the role of government in the economy. Which position makes the most sense to them? Why?

CLOSURE

Return to the classification form and ask students how they think conservatives and liberals would react to these headlines. Ask students to explain their answers.

ACTIVITY/VISUAL 1
ECONOMIC FUNCTIONS OF GOVERNMENT

Maintaining Legal and Social Framework

Providing Public Goods and Services

Maintaining Competition

Redistributing Income

Correcting for Externalities

Stabilizing the Economy

From *Civics and Government: Focus on Economics*, © National Council on Economic Education, New York, NY

ACTIVITY 1
ECONOMIC FUNCTIONS OF GOVERNMENT/WORKSHEET

Name _____

Maintaining Legal and Social Framework	**Maintaining Competition**	**Providing Goods & Services**
Headline:	Headline:	Headline:
Headline:	Headline:	Headline:
Headline:	Headline:	Headline:
Redistributing Income	**Stabilizing the Economy**	**Correcting for Externalities**
Headline:	Headline:	Headline:
Headline:	Headline:	Headline:
Headline:	Headline:	Headline:

From *Civics and Government: Focus on Economics*, © National Council on Economic Education, New York, NY

ACTIVITY 2
NEWSPAPER HEADLINES*

Name _____

1. Federal Government Approves Crime Bill; Cities to Hire Additional Police
2. Minnesota to Sue Tobacco Firms to Recover Health Care Costs
3. Consumer Product Safety Commission Recall of Skirts Made in India
4. US Investigation Seeks to Find if Aluminum Producers Conspired to Cut Output; Broke Anti-Trust Laws
5. Insurer Files Suit Charging Bank Made False Claims
6. Higher Interest Rates Likely Despite Inflation Data
7. U.S. Government to Increase Aid to Education Next Year
8. Northeast's Petition for Tighter Curbs on Auto Emissions Approved by Environmental Protection Agency
9. Group of Economists Urges Federal Reserve System Not to Act Against Inflation Now
10. Hughes Aircraft to Lay Off 4,400 and Close Big Defense Plant
11. Social Security Payments to Increase by 4% Next Year: Cost of Living Allowance Up
12. Congress Approves Higher Income Tax Rate for Top Wage Earners

*These headlines are fictional.

ACTIVITY 3
WHAT ROLE SHOULD THE GOVERNMENT PLAY IN THE ECONOMY?

Name _____

Although it is generally agreed there is a role for the government to redistribute income in favor of the poor, provide public goods and services, and deal with externalities, there is considerable disagreement over how far the government should go in these areas, and what additional areas the government should be responsible for. Some people feel that "big government" is already a problem, that government is doing too much. Others believe that the government sector of the economy is being starved and that government should be allowed to do more. What is the appropriate role for government is a basic question, and one that involves a great deal more than economics.

Conservative View

On the one hand, conservatives believe that the government's role should be severely limited. They feel that economic and political freedom is likely to be undermined by excessive reliance on government. Moreover, they tend to question the government's ability to solve social and economic problems. They believe that faith in the government's power to solve these problems is unreasonable. They call for more and better information about what government can reasonably be expected to do–and do well.

They point to the slowness of the government bureaucracy, the difficulty in controlling huge government organizations, the problems political considerations can breed, and the difficulties in telling whether government programs are successful or not. On the basis of these considerations, they argue that the government's role should be carefully limited.

Liberal View

Conservatives tend to question the government's ability to solve important social and economic problems, but liberals tend to question the market's ability to solve these problems. They point to the important limitations of the market system, and they claim that the government can do a great deal to overcome these limitations. Government can regulate private economic activity. It can also provide goods and services that the private businesses produce too little of. Liberals tend to be less concerned than conservatives about the effects on personal freedom of greater governmental intervention in the economy. They point out that the price system also involves a form of coercion by awarding goods and services to those who can pay the price. In their view, people who are awarded only a small amount of goods and services by the market are forced into discomfort and malnutrition.

Adapted from Edwin Mansfield and Nariman Behravesh. *Economics USA*. New York: W.W. Norton, 1992, pp. 592–594.

 From *Civics and Government: Focus on Economics*, © National Council on Economic Education, New York, NY

LESSON 5
HOW HAS FEDERAL GOVERNMENT SPENDING CHANGED?

INTRODUCTION

The founders of our nation believed strongly in individual freedom and limited government. Between 1789 and 1791 Federal government spending totaled only $4 million, about $1 per capita. (Half of this total went to pay interest on the debt accumulated during the Revolutionary War. By the early 1830s the national debt had been virtually eliminated.) During our nation's first century the belief in limited government continued, and by 1900, Federal government spending amounted to less than 3% of our economy's production of goods and services. During World War II, it ballooned to more than 45%, and although it fell immediately after the war, the low prewar levels of government spending would not be realized again. The expanding economic role of government since World War II has resulted in Federal Government spending now equal to 23% of total output. (When spending by state and local governments is added, the total rises to 35%.)

This growth in the amount of spending has been accompanied by a significant change in the types of programs being funded. Only one-fourth of Federal government spending is now used for the more traditional government purchase programs such as defense, transportation, physical resources, commerce, and international affairs. More than 60% is now for transfer payments such as direct payments to individuals, and grants to state and local governments. When the payment of interest on the national debt is added to this latter amount, nonpurchase related spending equals three-fourths of total Federal government spending.

CONCEPTS

Role of Government
Government Purchases
Government Transfer Payments
Government Interest Payments

OBJECTIVES

◆ Identify some government programs that have grown significantly in recent years, and some which have declined in importance during that time

◆ Differentiate among the three categories of government spending - purchases, transfer payments, and interest payments, and identify examples of each

◆ Examine the changing importance of these three types of spending programs in the budget of the Federal government since 1960, and discuss the significance of these trends

LESSON DESCRIPTION

Students examine a list of selected Federal government expenditures to determine which have grown the most and which have declined the most in importance in recent years. They review the definitions of government purchases and transfer payments and categorize the listed expenditures. Finally, given Federal government budget data, they draw graphs of the relative importance of different types of spending in the budget to discern the pattern of change and its significance.

TIME REQUIRED

One class period

MATERIALS

❍ One transparency of Activity/Visual 1, "Changes in Selected Categories of Federal Government Spending, 1970–1993"
★ One transparency of Activity/Visual 2, (Types of Government Spending: Purchases, Transfers, and Interest)
❍ One transparency of Activity/Visual 3, "Trends in U.S. Federal Government Spending, Purchases vs Transfers Plus Interest, 1960–1993"
★ One copy for each student of Activity 1, "Name that Program: Purchase or Transfer?"
★ One copy for each student of Activity 2, "U.S. Federal Government Spending, 1960–1993" and a sheet of Graph Paper

★ all students–basic course material
■ average and above average students
❍ average and below average students

PROCEDURE

1. Using Activity/Visual 1, ask the students to determine which categories of Federal government spending have grown the most in importance since 1970, and which have declined the most.

2. Use Activity/Visual 2 to explain the difference between government purchases, government transfer payments, and government interest payments. Divide the class into small groups and distribute a copy of Activity 1 to each group. Have the students categorize each of the programs on the list as either a government purchase or a government transfer payment. (The Sea Wolf Submarine, Meat Inspection, Space Shuttle, Lawn Mowing at Arlington Cemetery, and the National Weather Service are purchases; Unemployment Compensation, Federal Employee Retirement Pensions, and Food Stamps are transfers.)

3. Provide each group with a copy of Activity 2 and a sheet of graph paper. Ask them to prepare a graph showing the portion of Federal spending going for purchases and the portion going for transfer payments and interest between 1960 and 1993. Then, using Activity/Visual 3, discuss the trends in these types of spending. (Purchases have declined as a portion of Federal government spending since 1960, and transfers and interest have increased. The big shift between 1970 and 1975 resulted from a variety of factors: defense cutbacks at the end of the Vietnam War, increased unemployment compensation and welfare spending resulting from the oil crisis-related recession of 1974–1975, and major increases in Social Security benefits, partially the result of inflation-related cost-of-living adjustments and partially the result of the growing number of retired people. The next big shift, between 1990 and 1993 resulted from post-Cold War defense cutbacks, and further increases in spending on Social Security and Medicare.)

CLOSURE

Purchases have declined significantly as a portion of the Federal government budget. Many analysts think that if significant reductions in the Federal government budget deficit and the national debt are to be achieved, taxes must be increased or a reduction in government transfer payments must occur. Discuss the pros and cons of each of these options. Since many transfer payment recipients are legally "entitled" to them, they are difficult to reduce. Also point out that lower interest rates would automatically reduce government spending and that economic growth would automatically increase tax revenues. Policies designed to achieve these latter goals will be discussed in subsequent lessons.

ACTIVITY/VISUAL 1
CHANGES IN SELECTED CATEGORIES OF FEDERAL GOVERNMENT SPENDING, 1970–1993

(Percent of Federal Government Expenditures)

Category	1970	1993
National Defense	41.8%	20.7%
Education & Training	4.4	3.6
Income Security	3.2	14.7
Medicare	3.2	10.2
Social Security	15.5	21.6
Veterans Benefits	4.4	2.5
Energy & Environment	2.1	1.7
Transportation	3.6	2.5
Interest on Debt	7.4	14.1
All Other Categories	14.4	8.4

Source: *The Budget for Fiscal Year 1995–Historical Tables*, Washington, D.C.: U.S. Government Printing Office, 1994.

From *Civics and Government: Focus on Economics*, © National Council on Economic Education, New York, NY

ACTIVITY/VISUAL 2
TYPES OF GOVERNMENT SPENDING PURCHASES, TRANSFERS, AND INTEREST

GOVERNMENT PURCHASES are sums of money that are used to pay for the goods and services bought by all levels of government. Payment for army tanks, asphalt for highways, and public school teacher salaries are examples of government purchases

GOVERNMENT TRANSFER PAYMENTS are sums of money that certain individuals receive as outright grants from the government rather than as payments for goods provided or services rendered. Social Security and welfare payments are examples of government transfer payments. Many transfer payments are considered to be "entitlements," which are programs requiring payments to all those who meet the eligibility requirements.

GOVERNMENT INTEREST PAYMENTS are sums of money paid as interest on the national debt, which has accumulated as the result of past and current budget deficits.

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ACTIVITY/VISUAL 3
TRENDS IN U.S. FEDERAL GOVERNMENT SPENDING PURCHASES VS. TRANSFERS PLUS INTEREST

1960–1993

Source: *The Budget for Fiscal Year 1995–Historical Tables*, Washington, D.C.: U.S. Government Printing Office, 1994.

ACTIVITY 1
NAME THAT PROGRAM: PURCHASE OR TRANSFER?

Name _____

Federal Spending Program	Type (Purchase or Transfer)
Sea Wolf Submarine	_____
Unemployment Compensation	_____
Meat Inspection	_____
Federal Employee Retirement Pensions	_____
Food Stamps	_____
Space Shuttle	_____
Lawn Mowing at Arlington Cemetery	_____
National Weather Service	_____

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ACTIVITY 2
TYPES OF U.S. FEDERAL GOVERNMENT SPENDING, 1960–1993

Name _____

(Percent of Total Federal Spending)

TYPE OF SPENDING	1960	1965	1970	1975	1980	1985	1990	1993
National Defense	52.2	42.8	41.8	26.0	22.7	26.7	23.9	20.7
Other Purchases	9.2	15.8	9.9	10.7	11.4	8.4	10.1	4.8
TOTAL PURCHASES	61.4	58.6	51.7	36.7	34.1	35.1	34.0	25.5
Direct Payments to Individuals	23.5	24.9	28.7	41.2	41.6	39.9	40.5	46.7
Grants to State and Local Governments	2.7	3.1	4.5	5.0	5.5	5.5	6.2	8.8
Other Grants	4.9	5.9	7.7	10.1	9.9	5.8	4.6	4.9
TOTAL TRANSFERS	31.1	33.9	40.9	56.3	57.0	51.2	51.3	60.4
Interest on Debt	7.5	7.5	7.4	7.0	8.9	13.7	14.7	14.1
TOTAL TRANSFERS PLUS INTEREST	38.6	41.4	48.3	63.3	65.9	64.9	66.0	74.5

Source: *The Budget for Fiscal Year 1995–Historical Tables*, Washington, D.C.: U.S. Government Printing Office, 1994.

UNIT III
ECONOMIC POLICY MAKING

LESSON 6
HOW CAN CHANGES IN THE FEDERAL GOVERNMENT'S BUDGET STABILIZE THE ECONOMY?

INTRODUCTION

Levels of production, income, spending, and prices in a market economy like that of the United States historically have moved up and down in a pattern called the business cycle. At times production, income, and spending fall and unemployment increases. At other times excessive increases in production, income, and spending result in inflation (rapidly rising price levels).

These rises and falls of economic activity occur because an initial change in spending starts a chain reaction in the economy, which results in a multiplier effect. A change in spending (either up or down) by one economic unit (business, consumer, government) affects the income of another unit. This in turn causes a change in the spending by that unit. This in turn affects the income of the next, and the process continues throughout the economy. The cumulative result is many times larger than the initial change. These unstable rises and falls in economic activity lead to hardships and ups and downs in the standard of living.

In 1936, British economist John Maynard Keynes [pronounced cainz] published *The General Theory* which advocated that governments use their spending and taxing powers to counter spending changes by businesses and consumers in order to smooth out the business cycle and stimulate economic growth. With the acceptance of Keynesian [pronounced cain'-zee-un] economics at the end of World War II, Congress passed the Employment Act of 1946, which states in part "... that it is the continuing policy and responsibility of the Federal Government to use all practicable means... to promote maximum employment, production, and purchasing power." This relatively new stabilization role involves the intentional unbalancing of the Federal government's budget, that is, running a deficit (expenditures exceeding revenues) to counter unemployment, or incurring a surplus (spending less than revenues) in order to reduce inflation. These actions are called fiscal policy.

Fiscal policies stir controversy and may have unintended results. For example, allowing the government to run a deficit by spending more and/or taxing less, and removing spending restraint and political responsibility from budget decision makers (which has resulted in huge, successive deficits and a rapidly rising Federal Government debt). It also means the government must borrow money to pay for the excess of spending over tax revenue. This borrowing to finance the deficit may cause higher interest rates in the nation, thus resulting in businesses and consumers borrowing and spending less rather than more, as was intended.

CONCEPTS

Income-Spending Chain
Multiplier Effects
Business Cycle
Unemployment
Inflation
Fiscal Policy

OBJECTIVES

◆ Describe the income-spending chain in the economy

◆ Explain why the income-spending chain results in a multiple cumulative impact on the economy

◆ Describe how income and spending changes moving through the economy can result in unstable rises and falls in production, called the Business Cycle, sometimes resulting in unemployment and sometimes in inflation

◆ Explain how changing government spending and/or taxes, which also have multiplier effects, can offset spending changes by businesses and

consumers, thus lessening the impacts of the Business Cycle

◆ Identify some problems that may result from fiscal policies

LESSON DESCRIPTION

The teacher discusses with the class how a market economy like that of the United States goes through the Business Cycle of unstable swings in economic activity. The students then write and perform a three-act skit which illustrates how the level of income and spending in an economy can fall, and how intentional fiscal policy changes in the spending and taxing levels of government result in a multiple impact on the economy. The class discusses how the federal government can try to stabilize the Business Cycle, using fiscal policies recommended by John Maynard Keynes in the 1930's, and accepted by Congress following World War II. The lesson closes with a discussion and summary of the multiplier effects of government fiscal policies illustrated in the skit and some of the problems of using fiscal policies to smooth the Business Cycle.

TIME REQUIRED

Two class periods

MATERIALS

★ One copy for each student of Activity 1, "A Three-Act Fiscal Policy Skit Act I"
★ One copy for half of the students of Activity 2, "A Three-Act Fiscal Policy Skit Act II (New Government Spending)"
★ One copy for half of the students of Activity 3, "A Three-Act Fiscal Policy Skit Act III (A Tax Cut)"

PROCEDURE

1. Discuss with the class the information in the Lesson Introduction, emphasizing the problems of unemployment resulting from a decrease in spending and inflation resulting from a rapid increase in spending. Explain that these up and down swings in spending are referred to as the Business Cycle. Discuss the connection between income and spending in the income-spending chain. Point out that the cumulative effects of increases or decreases of spending are a multiple of the initial change in spending that started the chain reaction.

2. Distribute copies of Activity 1. Select two or three students for each character. Have each group write a short script (two or three sentences) for its character. Have each character's script indicate that each person will have to cut back on purchases from the next character because each has less income because the preceding character cut back on his or her spending. Then have the class perform Act I of the skit by assigning one student from each group for each character. Be sure the narrator describes what happened. Point out that the sum total of all income and spending decreases is many times larger than just the initial decrease that started the chain reaction.

3. Discuss with the class the multiplier effect that resulted from the initial change in spending by Renee Robideau. Then describe how the government can counter this drop in spending by either increasing government expenditures or reducing taxes so businesses and consumers will have more income and thus increase their spending (which will have a multiplier effect).

4. Distribute copies of Activity 2 to half of the students and copies of Activity 3 to the other students. Assign groups of students for each character and the Narrators and have the groups write a script for each. Each character should increase his or her spending on the next character's good or service because his or her income increased because each preceding character increased or his or her spending. Have selected students perform the skit.

5. Have the Narrators explain what happened. Discuss the results with the class, pointing out that the intentional changes in government spending (in Act II) or tax changes (in Act III) to counter the business cycle are called fiscal policies.

CLOSURE

Explain to the class two reasons why fiscal policies may result in unintended and undesirable results:

- Allowing the government to run a deficit removes spending restraint and political

responsibility from budget decision makers (which have resulted in huge, successive deficits and a rapidly rising Federal Government debt).

- It means the government must borrow money to pay for the excess of spending over tax revenue. This borrowing to finance the deficit may cause higher interest rates in the nation, thus resulting in businesses and consumers borrowing and spending less rather than more, as was intended.

ACTIVITY 1
A THREE-ACT FISCAL POLICY SKIT
ACT 1

Name _____

Location: Anytown, U.S.A.

Time: The present

Characters:

Narrator: Opens Act I of the skit by warning of an economic chain of events that is about to occur, introduces Renee Robideau, and (at the end of the Act), explains what has happened.

Renee Robideau, the chef and owner of a catering business (who cancels her order for a new Ford mini-van because her business goes bankrupt and closes)

Willie Robinson, a salesman at the Ford dealership (who is planning to buy a new wardrobe of shirts, suits, and ties)

Mordecai Goldstein, the owner of Goldstein's Menswear & Haberdashery (who wants to have his house painted)

Philip Youngblood, a housepainter (who is looking for a new TV and VCR)

Mai Lein Chin, the owner of the local TV sales and repair shop (who has been planning a trip to Europe)

Ingrid Swenson, a travel agent (who has an outstanding loan from the local bank)

Panjit Mendu, the local banker

Juanita Lopez, the owner and operator of the Acapulco Restaurant (who has applied for a bank loan to build a new dining room)

Casimir Mizveski, a building contractor

Synopsis:

An unexpected sharp drop in spending by one of the characters reverberates through the economy of a town as the loss of income from each character's spending results in less income and still less spending by every other character.

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ACTIVITY 2
A THREE-ACT FISCAL POLICY SKIT
ACT II (NEW GOVERNMENT SPENDING)

Name _____

Location: The same

Time: Several months later

Characters:

Narrator: Opens Act II by telling of an economic chain reaction that is about to occur, introduces Uncle Sam Spender, and (at the end of the Act) explains what has happened.

Uncle Sam Spender, the local agent for a government agency places a new order for five Ford sedans for his agency's use

Willie Robinson, a salesman at the Ford dealership (who is planning to buy a new wardrobe of shirts, suits, and ties)

Mordecai Goldstein, the owner of Goldstein's Menswear & Haberdashery (who wants to have his house painted)

Philip Youngblood, a housepainter (who is looking for a new TV and VCR)

Mai Lein Chin, the owner of the local TV sales and repair shop (who has been planning a trip to Europe)

Ingrid Swenson, a travel agent (who has an outstanding loan from the local bank)

Panjit Mendu, the local banker

Juanita Lopez, the owner and operator of the Acapulco Restaurant (who has applied for a bank loan to build a new dining room)

Casimir Mizveski, a building contractor

Synopsis:

Uncle Sam Spender, the representative of a United States government agency, announces that Congress has authorized an increase in government spending, which allows him to make a big purchase from one of the businesses in town. The effects ripple through the town's economy.

ACTIVITY 3
A THREE-ACT FISCAL POLICY SKIT
ACT III (A TAX CUT)

Name _____

Location: The same

Time: About the same

Characters:

Narrator: Opens Act III by telling of another economic chain reaction that is about to occur in Anytown, introduces Aunt Iris Goody, and (at the end) closes the skit.

Aunt I.R.S. (Iris) Goody, the local Congressional Representative who announces a 10% tax cut for all residents of Anytown.

Willie Robinson, a salesman at the Ford dealership (who is planning to buy a new wardrobe of shirts, suits, and ties)

Mordecai Goldstein, the owner of Goldstein's Menswear & Haberdashery (who wants to have his house painted)

Philip Youngblood, a housepainter (who is looking for a new TV and VCR)

Mai Lein Chin, the owner of the local TV sales and repair shop (who has been planning a trip to Europe)

Ingrid Swenson, a travel agent (who has an outstanding loan from the bank)

Panjit Mendu, the local banker

Juanita Lopez, the owner and operator of the Acapulco Restaurant (who has applied for a bank loan to build a new dining room)

Casimir Mizveski, a building contractor

Synopsis:

Aunt I.R.S. (Iris) Goody announces that a tax cut by Congress will result in each resident's after-tax income increasing by 10%. The windfall gain has quite an effect on the economy of Anytown, U.S.A.

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LESSON 7
WHO SHOULD CONTROL THE MONEY SUPPLY—THE U.S. CONGRESS OR THE FEDERAL RESERVE?

INTRODUCTION

Throughout the 19th century, the United States experienced periodic financial panics, bank failures, and economic recessions. In an attempt to counter such disruptions and provide for a more stable banking and monetary system, the U.S. Congress, in 1913, established the Federal Reserve System. By regulating the lending activity of banks, the Federal Reserve (commonly known as the "Fed") influences the amount of money circulating in the economy, which can affect the general level of production, employment, and prices.

Although Article 1, Section 8 of the U.S. Constitution gives Congress the power to coin money and regulate its value, the Federal Reserve was established as an independent agency. Opponents of this independent status argue that monetary policy should be formulated by elected representatives of the people, just like Federal government budget policy. In their view, Congress has yielded too much of its power to a small group of unelected bankers and economists. Proponents of Federal Reserve independence counter that although the Fed's policies do not have to be ratified by the President or Congress, all appointments to its Board of Governors are made by the President with the consent of the Senate, and the Fed Chairman must regularly report to the Congress. They argue that Federal Reserve independence helps to ensure that monetary policy will be based on objective, technical criteria rather than on political considerations; politicians might be tempted to increase the money supply too rapidly in an attempt to boost employment, especially near elections, and this could cause serious inflation.

CONCEPTS

Money Supply
Monetary Policy
Unemployment and Inflation

OBJECTIVES

◆ Define the money supply in the U.S. economy as currency in circulation and balances held in checking accounts in banks

◆ Describe how the money supply increases when banks make loans

◆ Explain that the Federal Reserve attempts to control the amount of money in the economy by controlling the amount of bank loans

◆ Explain how increases in the money supply can result in increases in prices

◆ Identify the pros and cons of having the money supply controlled by Congress versus having it controlled by the Federal Reserve

LESSON DESCRIPTION

Students learn that the basic U.S. money supply consists of currency in circulation and checking account balances in banks. They learn that the money supply increases when banks make loans, and that by controlling bank lending activity, the Federal Reserve System (an independent regulatory agency established by Congress in 1913) attempts to control the supply of money in the economy. The students participate in a classroom auction which demonstrates how prices can rise when the money supply is increased. The lesson concludes with a discussion of whether the Federal Reserve or Congress should control the money supply.

TIME REQUIRED

One class period

MATERIALS

★ One transparency of Activity/Visual 1, "Components of the U.S. Money Supply", plus

★ all students–basic course material
■ average and above average students
◗ average and below average students

one copy for each student
★ One copy of Activity 1, "Who Should Control the U.S. Money Supply?" for each student
★ Multiple copies of Activity 2, "Auction Money"
Two Granola Bars

PROCEDURE

1. Ask the students if any of them are carrying money. Most likely they will take out currency (paper money and coins). Using Activity/Visual 1, explain that most money in our economy is in the form of checking account balances in banks. Ask the students if any of them have a checking (or savings) account. Ask those who have accounts what they think the bank did with the funds they deposited. (Banks lend deposited funds to other people and businesses, and when they do this the money supply increases as a result of the loans. The depositor has the same amount of money, but the borrower now has more money than before.) Reinforce the idea that the supply of money increases when banks make loans.

2. Explain to the class that in 1913, the U.S. Congress established an independent regulatory agency called the Federal Reserve System to regulate bank lending activity and control the growth of the money supply.

3. Announce that you are going to auction off a Granola Bar. Distribute pieces of auction money (cut out from copies of Activity 2) randomly to the students. Make sure that some students get more than others. Conduct the auction and record the winning price (bid) on the chalkboard. Leaving the original auction money "in circulation," distribute a second allotment equal to the first. Conduct a second auction now that the money supply has increased and record the winning price (bid) on the chalkboard. The second price should be higher than the first. Explain that increases in the money supply can cause inflation. (Point out to the class, however, that if more Granola Bars had been provided in response to the increased demand in the second auction, the price might not have risen or might not have risen as much.)

CLOSURE

The question of who should control the money supply (the Federal Reserve or Congress) continues to be hotly debated. After reviewing Activity 1, discuss the issue with the class and see if they can reach a consensus.

ACTIVITY/VISUAL 1
COMPONENTS OF THE U.S. MONEY SUPPLY

MONEY SUPPLY	=	CURRENCY IN CIRCULATION	+	CHECKING ACCOUNT BALANCES IN BANKS
		(31%)		(69%)

Did you know?

1. Most of the money in our economy is not currency (paper money and coins). Most of it is checking account balances in banks. At the end of 1994, the money supply totaled $1,147.6 billion; $353.6 billion in currency, and $794.0 billion in checking accounts.

2. Numerically, most transactions in our economy are conducted with currency (83%), but currency transactions are usually of very small value. In terms of the total value of transactions, less than ½ of one percent (0.41%) are conducted with currency.

Sources: *Economic Report of the President*, February 1995, "Economic Commentary," Federal Reserve Bank of Cleveland, July 1, 1994.

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ACTIVITY 1
WHO SHOULD CONTROL THE U.S. MONEY SUPPLY?

OPTION 1: The Federal Reserve

a. Although the Federal Reserve's policies do not have to be ratified by the President or Congress, all appointments to its Board of Governors are made by the President with the consent of the Senate.

b. The Chairman of the Federal Reserve must report regularly to the Congress.

c. Federal Reserve independence helps to ensure that monetary policy will be based on objective, technical criteria rather than on political considerations. Politicians might be tempted to increase the money supply too rapidly in an attempt to boost employment, especially near elections, and this could cause serious inflation. Recent studies have shown that higher levels of central bank independence are associated with lower and more stable rates of inflation.

OPTION 2: Congress

a. Article 1, Section 8 of the U.S. Constitution gives Congress the power to coin money and regulate its value.

b. Control of the money supply is an important policy tool that can significantly affect our nation's economic well-being. Monetary policy should be formulated by elected representatives of the people, just like Federal government budget policy (fiscal policy).

c. Congress has yielded too much of its power to a small group of unelected bankers and economists.

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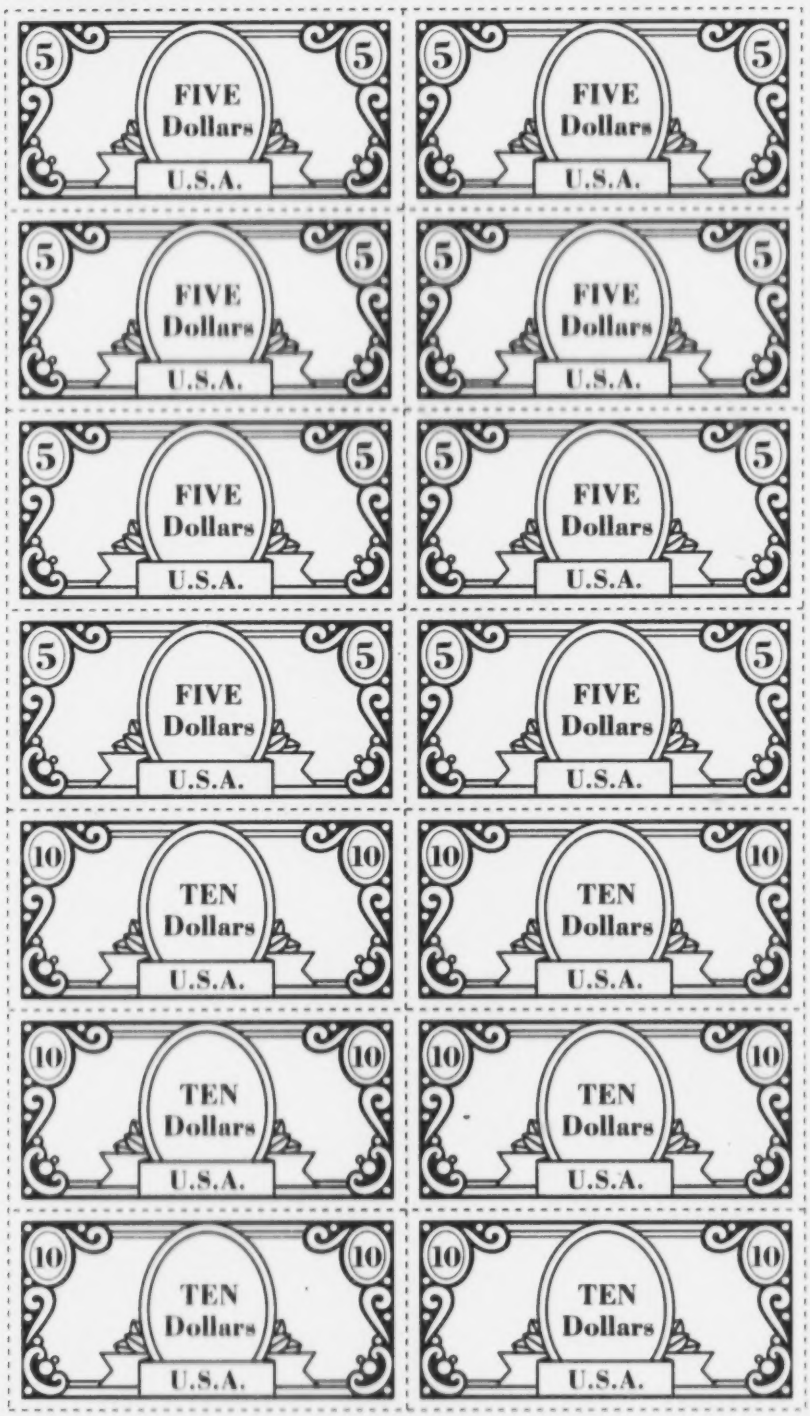
ACTIVITY 2
AUCTION MONEY



LESSON 8
TO WHAT EXTENT DO ECONOMIC CONDITIONS DETERMINE THE OUTCOME OF PRESIDENTIAL ELECTIONS?

INTRODUCTION

Many different factors influence a person's decision as to which candidate to vote for in a presidential election. Party affiliation plays a key long-term role in shaping voter behavior, but the past successes of the Republican party (which represents a minority of registered voters), and the strong showing of third party candidates (George Wallace in 1968, John Anderson in 1980, and Ross Perot in 1992) seem to indicate that in the short run a candidate's style and charisma, a candidate's stand on the issues, and an incumbent's record while in office also play important roles. Of all the factors that influence the way a person votes, a strong case can be made that economic conditions play the most important role. An old political adage states that "people tend to vote their pocketbooks." A strong economy almost guarantees an incumbent's reelection, and a weak economy spells almost certain defeat.

CONCEPTS

Real Disposable Personal Income
Unemployment
Inflation
Misery Index

OBJECTIVES

◆ Identify some of the major indicators of macroeconomic performance: the unemployment rate, the inflation rate, the misery index, and the growth rate of real income

◆ Determine the relationships between changes in these indicators and the outcomes of U.S. presidential elections from 1960 to 1992

LESSON DESCRIPTION

Students consider how economic performance is evaluated and are introduced to four major indicators of macroeconomic performance: growth rate of real income, unemployment rate, inflation rate, misery index. They complete a worksheet comparing changes in these indicators with the outcomes of U.S. presidential elections from 1960 to 1992 and examine the influence of economic conditions on the likelihood of the incumbent party winning an election.

TIME REQUIRED

One class period

MATERIALS

■ One copy for each student of Activity 1, "Elections and the Economy"
★ One copy for each student of Activities 2 and 2A, "Winning and Losing Presidential Elections: The Economic Rules"

PROCEDURE

1. A day or two before beginning the lesson have the students ask family members who have voted in presidential elections (or the students themselves if they have voted) what factors influenced their decisions. Make a list on the chalkboard to illustrate that many different factors influence a person's decision about whom to vote for in a presidential election.

2. Ask students which domestic policy issues can influence voter behavior (education, the environment, crime, agriculture, economic conditions, etc.). Make a second list of their responses on the chalkboard. Explain that they will now examine the relationship between economic conditions and the outcomes of presidential elections. Of all the factors that influence the way a person votes, a strong case can be made that economic conditions are often the most important. An old political adage states that "people tend to vote their pocketbooks."

3. Ask students if they think the national

★ all students–basic course material
■ average and above average students
● average and below average students

economy is in good shape, and why. (No, because there's too much unemployment, inflation, poverty, etc. Yes, because unemployment is low, inflation is low, income is growing, etc.) Distribute Activity 1 and explain that it contains data on four of the major indicators of economic performance. The unemployment rate is the percent of the labor force looking for work. The inflation rate is the percent change in the general level of prices of consumer goods. Because the unemployment rate and the inflation rate each measure different economic problems, they are often added together to create what is known as the misery index. The growth of real income is the percent change in per capita after-tax income adjusted for inflation. Review the data on all four indicators, finding the highest and lowest values of each.

4. Have students underline the name of the incumbent party's candidate in each of the presidential elections and then fill in the remaining blanks on Activity 1. To determine the relationship between economic performance and the outcomes of presidential elections, ask: In how many of the past nine presidential elections...
   a. has the change in the misery index correctly predicted the outcome of the election (incumbent party reelected if index fell during the election year; incumbent party defeated if index rose)? (7 out of 9: 1960, 1964, 1968, 1972, 1980, 1984, and 1988)
   b. has the growth of real income correctly predicted the outcome of the election (incumbent party reelected if growth rate > 3%; incumbent party defeated if growth rate < 3%)? (7 out of 9: 1960, 1964, 1972, 1976, 1980, 1984, and 1992)
   c. has the incumbent party been defeated when either the misery index or the growth of real income were unfavorable? (5 out of 6: 1960, 1968, 1976, 1980, 1992)
   d. has the incumbent party been defeated when both the misery index and the growth of real income were unfavorable? (2 out of 2: 1960, 1980)
   e. has the incumbent party been reelected when both the misery index and the growth of real income were favorable? (3 out of 3: 1964, 1972, 1984)

5. Distribute Activities 2 and 2A and review the economic "rules" for determining the outcome of presidential elections.

CLOSURE

Given the current economic conditions (growth, inflation, and unemployment rates) as reported in the media, ask students to predict the results of a presidential election if it were held today.

ACTIVITY 1
ELECTIONS AND THE ECONOMY

Year	Unemployment Rate	+ Inflation Rate	= Misery Index	Misery Index Down? (yes or no)	Growth of Real Income Per Capita	Growth Rate >3% ? (yes or no)	Candidates	Winner	Incumbent Party Wins? (yes or no)
1959	5.5%	0.7%	6.2						
1960	5.5	1.7	7.2	____	0.1%	____	Kennedy/Nixon	_____	____
1961	6.7	1.0	7.7		1.6				
1962	5.5	1.0	6.5		2.7				
1963	5.7	1.3	7.0		1.8				
1964	5.2	1.3	6.5	____	5.5	____	Johnson/Goldwater	_____	____
1965	4.5	1.6	6.1		4.5				
1966	3.8	2.9	6.7		3.7				
1967	3.8	3.1	6.9		3.3				
1968	3.6	4.2	7.8	____	3.1	____	Humphrey/Nixon/Wallace	_____	____
1969	3.5	5.5	9.0		2.2				
1970	4.9	5.7	10.6		2.8				
1971	5.9	4.4	10.3		2.4				
1972	5.6	3.2	8.8	____	3.0	____	McGovern/Nixon	_____	____
1973	4.9	6.2	11.1		5.8				
1974	5.6	11.0	16.6		-1.6				
1975	8.5	9.1	17.6		0.7				
1976	7.7	5.8	13.5	____	2.6	____	Carter/Ford	_____	____
1977	7.1	6.5	13.6		1.9				
1978	6.1	7.6	13.7		3.9				
1979	5.8	11.3	17.1		1.6				
1980	7.1	13.5	20.6	____	-0.3	____	Carter/Reagan/Anderson	_____	____
1981	7.6	10.3	17.9		1.3				
1982	9.7	6.2	15.9		-0.1				
1983	9.6	3.2	12.8		1.7				
1984	7.5	4.3	11.8	____	5.5	____	Mondale/Reagan	_____	____
1985	7.2	3.6	10.8		1.8				
1986	7.0	1.9	8.9		2.2				
1987	6.2	3.6	9.8		-0.1				
1988	5.5	4.1	9.6	____	2.5	____	Dukakis/Bush	_____	____
1989	5.3	4.8	10.1		0.8				
1990	5.5	5.4	10.9		0.7				
1991	6.7	4.2	10.9		-0.1				
1992	7.4	3.0	10.4	____	1.8	____	Clinton/Bush/Perot	_____	____

Source: *Economic Report of the President*, February 1994.

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ACTIVITY 2
WINNING AND LOSING PRESIDENTIAL ELECTIONS: THE ECONOMIC "RULES"

The incumbent party will *usually* be reelected if:

> The growth rate of real income per capita is greater than 3% or the misery index decreases during the year preceding the election.

Since 1960, the incumbent party has *always* been reelected when the growth rate of real income per capita has been greater than 3% *and* the misery index has decreased during the year preceding the election.

ACTIVITY 2A

The incumbent party will *usually* lose the election if:

> The growth rate of real income per capita is less than 3% or the misery index increases during the year preceding the election.

Since 1960, the incumbent party has *always* lost the election when the growth rate of real income per capita has been less than 3% *and* the misery index has increased during the year preceding the election.

LESSON 9
HOW ARE ECONOMIC SOLUTIONS TO POLLUTION DIFFERENT FROM POLITICAL SOLUTIONS?

INTRODUCTION

In the 1960s Americans became increasingly aware of the problems associated with environmental pollution. A variety of Federal government policies and programs were adopted to address these problems and hundreds of billions of dollars have been spent over the past few decades. Most of these policies and programs have involved the enactment of laws prohibiting pollution and the imposition of fines on those who continue to pollute. Although these laws have helped to reduce pollution, many economists feel there are better ways to achieve the same end.

Economists think of environmental pollution as resulting from a failure of our market system. In economics, pollution is an example of a "negative externality." Negative externalities occur when the production or consumption of a good or service has undesirable effects on people who are not directly involved in a market exchange. Rather than attempting to control pollution through the imposition of prohibitions and fines by the government, many economists suggest creating financial incentives through taxes, subsidies, and the issuance of marketable pollution rights as better ways to address the problems. According to Alan Blinder, former member of the President's Council of Economic Advisors and now a member of the Board of Governors of the Federal Reserve system, "Our current policies make environmental protection far too costly. America can achieve its present levels of air and water quality at far lower cost."

CONCEPTS

Externalities
Role of Government
Incentives

OBJECTIVES

◆ Define and give examples of externalities

◆ List various government strategies for controlling pollution

◆ Evaluate the costs and benefits of various pollution control strategies

LESSON DESCRIPTION

After students have developed an understanding of externalities, they examine a case study of pollution in Los Angeles and determine a variety of solutions for this problem. The costs and benefits of these solutions are explored.

TIME REQUIRED

One class period

MATERIALS

★ Overhead Transparencies and copies for each student of Activity/Visuals 1, 2, and 3
★ Copies for each student of Activity 1

PROCEDURE

1. Display Activity/Visual 1 "Costs and Benefits Situations." Ask the students to identify the costs and benefits in each situation and explain who pays the costs and who receives the benefits.

2. Display Activity/Visual 2 "Externalities". Review the definition with the students, making certain that they can state a definition in their own words and give additional examples. Return to the examples on Activity/Visual 1. Have students explain each situation using the concept of externalities.

3. Distribute Activity 1 "Air Pollution in Los Angeles." After they read the activity, ask students to explain how pollution is an example of an externality. What would be some of the spillover costs/spillover benefits? Who receives the spillover benefits in Los Angeles? Who pays the spillover costs in Los Angeles?

★ all students–basic course material
■ average and above average students
● average and below average students

Examples of Costs:
$300 million in crop damage, with 20% of Riverside County's grape and orange crops destroyed; increased health costs especially for people with heart or respiratory problems; tourism discouraged.

Examples of Benefits:
Unrestricted use of fossil fuels by industries and motorists; employment in certain key industries like oil refining and paint production.

4. Ask the students to brainstorm a list of possible solutions and record them on the chalkboard. Encourage the students to be creative.

5. Distribute and display Activity/Visual 3 "Pollution Solutions". Discuss each of the types of solutions and have the students categorize the solutions they brainstormed earlier.

6. Identify and discuss the pros and cons of each type of solution. (Standards and Fines, the basis of most existing antipollution legislation, when effectively enforced, directly prohibit or limit pollution of the environment. They are, however, often difficult and expensive to enforce and the enforcement process can drag on for years in the courts. They also often result in job losses. Taxes and subsidies, and markets for pollution rights, are the solutions recommended by most economists. Although they do not directly prohibit pollution, they create financial incentives and disincentives for polluters to reduce the amount of pollution they are creating. Since companies are in business to earn profits, the reduction of pollution becomes an important business goal.)

CLOSURE

Explain that the possible solutions discussed in the lesson are actually being implemented in Los Angeles. In 1989, the South Coast Air Quality Management District, with the support of the California State legislature, embarked on a 20-year "Path to Clean Air." In addition to the use of standards and fines to reduce air pollution, tax revenues are being diverted from freeway construction and are being used to build a mass transit system. Experiments with the buying and selling of pollution rights also are under way.

ACTIVITY/VISUAL 1

COSTS AND BENEFITS SITUATIONS

Several neighbors spend the weekend cleaning up a vacant lot in their neighborhood.

Commuters from several suburbs use city streets and expressways to get to work.

Scholarships, grants, and low interest loans are made available to college students by state and federal governments.

A noisy late-night party next door awakens you at 2:30 A.M.

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ACTIVITY/VISUAL 2
EXTERNALITIES

"Externalities are the positive or negative side effects that result when the production or consumption of a good or service affects the welfare of people who are not the parties directly involved in a market exchange."

Source: *A Framework for Teaching Basic Economic Concepts*. Philip Saunders and June Gilliard. National Council on Economic Education. New York: 1995, pp. 25.

ACTIVITY/VISUAL 3
POLLUTION SOLUTIONS

Standards and Fines: Legally established prohibitions or limits on the amount of pollution that can be created, with financial penalties for those who exceed these limits.

Taxes and Subsidies: Charges levied on polluters in order to encourage a reduction in the amount of pollution created and to help cover cleanup costs; or payments to polluters in order to provide a financial incentive to reduce pollution.

Markets for Pollution Rights: Government authorities determine what quantity of pollution is tolerable and then offer for sale to polluters a limited number of permits authorizing just that amount of pollution. Any unused portions can be sold by the original buyer to other polluters. Only permit holders are allowed to pollute, and only to the extent authorized by the permit.

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ACTIVITY 1
AIR POLLUTION IN LOS ANGELES

Name _____

The first gray-brown stains appeared in the azure skies above Los Angeles before the outset of World War I. During World War II, the summer haze was beginning to sting the eyes and shroud the mountains that ring the city. By the mid-1950s, Los Angeles' smog, as the noxious vapor had been dubbed, was sufficiently thick and persistent to wilt crops, obstruct breathing, and bring angry housewives into the streets waving placards and wearing gas masks. Oil companies were urged to cut sulfur emissions. Cars were required to use unleaded gas and exhausts were fitted with catalytic converters. But as the city continued to grow unabated, so did its choking smog.

"A Drastic Plan to Banish Smog."
Time, March 27, 1989, p. 65

1. Identify the externalities in the pollution problem in Los Angeles.

2. What are some of the costs?

3. Who gets the benefits of polluting the air in Los Angeles?

4. Who pays the costs?

5. Discuss a variety of strategies for reducing air pollution in Los Angeles.

LESSON 10
WHY DOES THE FEDERAL GOVERNMENT GIVE MONEY TO STATE AND LOCAL GOVERNMENTS?

INTRODUCTION

State and local governments provide goods and services that benefit their residents. These include such things as elementary and secondary education, hospitals and other health services, highways and other transportation facilities, and law enforcement. The amounts of services these governments provide generally are based on the benefits that their residents have agreed to pay for with taxes.

Under certain circumstances such as a lack of good information about costs and benefits or political logrolling, governments may be seen as providing "too much." In other instances, when benefits from the services provided by a state or local government spill over to nonresidents, governments may be seen as providing "too little." This can occur when nonresidents come into the jurisdiction and use the goods and services provided by the state or local government without paying for them. For example, the operation of a large city hospital clearly benefits any nonresidents who must use this local, tax-supported facility. This spillover of benefits to people who have not paid for them is called a positive externality. However, the state or local community will provide only what their own residents want and will pay for, thus not providing as much as is desirable from a regional or national point of view.

The Federal government can provide both financial assistance and incentives that encourage state and local government to provide a larger quantity of goods and services which generate external benefits by giving special-purpose intergovernmental grants to state and local governments to help them pay for these services. This kind of financial relationship among different levels of government is known as "fiscal federalism." In recent years, state and local governments have received about 20% of their total revenues from the Federal government.

CONCEPTS

Positive Externalities (Spillover Benefits)
Incentives
Intergovernmental Grants
Fiscal Federalism

OBJECTIVES

◆ Explain the meaning of positive externalities (spillover benefits) by giving examples

◆ Identify goods and services provided by governments that generate positive externalities (spillover benefits)

◆ Explain that when a good or service produces positive externalities (spillover benefits), too little will be produced because not all of the benefits are being taken into account

◆ Describe how an intergovernmental grant to be used for a specific purpose from one level of government to another provides both greater ability and incentive to the recipient government to provide more goods or services than it would otherwise

LESSON DESCRIPTION

The class discusses the meaning of spillover benefits (positive externalities) and develops a list of goods and services provided by state or local governments that could result in positive externalities. The concept of fiscal federalism is discussed by examining why and how the Federal government would encourage state and local governments to increase their production of the items on the list. The students then are presented with a situation that illustrates how a special-purpose grant from the Federal government to a state government induces the state to provide a good it would not have otherwise provided. The lesson

concludes with the identification of other examples of fiscal federalism.

TIME REQUIRED

One class period

MATERIALS

★ One copy for each student of Activity 1, "Fiscal Federalism Simulation"

PROCEDURE

1. Discuss with the class the types of goods and services typically provided with tax dollars by state and local governments. Have the class provide examples. Develop a list on the chalkboard.

2. Discuss the meaning of a positive externality in the cases of some government-provided goods and services. Emphasize situations in which a benefit arising from producing or using a good or service spills over to someone who is not a resident or taxpayer of the jurisdiction that provided (and paid for) it. Elicit from the students reasons why this could occur e.g., people from outside visit or pass through the jurisdiction, using the good or service without paying for it as they do so. Point out that it is desirable for these other people to benefit from these goods and services. However, the taxpayers (and government decision makers) in the jurisdiction providing the good or service will support and pay for a level of these programs only to the extent that their own residents benefit. They are not willing to pay for benefits going to "outsiders" who do not pay for them.

3. Divide the class into cooperative learning groups and distribute copies of Activity 1. Ask each group to read and discuss the "Situation". Then have each group answer the questions on the activity.

4. Have each group report its answers, record them on the chalkboard, and discuss. Emphasize the concepts of incentives, such as special-purpose intergovernmental grants, and fiscal federalism.

Suggested answers:

1. out-of-state travelers, residents and businesses in the two big cities; local road-builders

2. few benefits to state residents compared to high costs of building and maintaining the road

3. to benefit their residents through reduced congestion and higher volume of traffic for their two cities

4. cannot force them, help to pay for it (which is not likely politically)

5. cannot legislate it, but could withhold other Federal monies or provide a special-purpose grant to cover all or most of the construction and maintenance costs

CLOSURE

Have the class discuss other goods and services from the list in Procedure 1 that should and could be expanded by means of special-purpose intergovernmental grants.

Examples: pollution control; crime prevention; education; parks, forests, and seashore development; reducing communicable diseases

★ all students–basic course material
■ average and above average students
● average and below average students

ACTIVITY 1
FISCAL FEDERALISM SIMULATION

Name _____

Situation:

Thousands of people drive every day, crossing through three states, to get between a major metropolitan area on the Eastern Seaboard and a big city in the Midwest. They are moving freight, going on business trips, and traveling for pleasure. Both the state to the east and the state to the west have constructed their own four-lane, limited access, high-speed highways running east and west in order to reduce congestion and ease the flow of traffic into their big cities. Unfortunately, the state in between has not built such a highway, resulting in bottlenecks at the statelines, as drivers move onto a smaller road at much slower speeds to continue their trips.

The legislature of the middle state several times has rejected a proposal to pay for the construction of a modern highway to connect with those of its neighboring states, despite pleas to do so by the other states and the Federal Department of Transportation. The state's taxpayers and their representatives have argued successfully that a new and very expensive highway would benefit primarily nonresidents just passing through their state. The existing smaller road is sufficient to meet the needs of the middle state's taxpayers.

Questions:

1. Who would benefit if the middle state built the highway? In what ways?

2. Why do the middle state taxpayers not want to build the highway?

3. Why do the neighboring states want the middle state to build the highway?

4. Under our Federal constitutional system, how can the other states get the middle state to build the highway?

5. Under the U.S. Constitution, how can the Federal Government get the middle state to build the highway?

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LESSON 11
WHAT CAN THE GOVERNMENT DO ABOUT UNEMPLOYMENT?

INTRODUCTION

The U.S. Bureau of Labor Statistics conducts a monthly survey of 60,000 U.S. households to determine the unemployment rate, which is one of the most important indicators of the nation's economic health. The unemployment rate is calculated by first counting the labor force, those who are employed plus those who are unemployed but actively seeking work. The unemployment rate is the percentage of the labor force that is unemployed but looking for work.

In 1982, the unemployment rate averaged 9.7% of the labor force, the highest rate since the Great Depression; in the early 1990s, it has ranged between 5.5% to 7.5% of the labor force. As a part of its function of stabilizing the economy, the government attempts to reduce unemployment through a variety of programs and polices.

CONCEPTS

Unemployment
Role of Government

OBJECTIVES

◆ Define and give examples of three types of unemployment: frictional, structural, and cyclical

◆ Identify government policies to reduce the three types of unemployment

LESSON DESCRIPTION

An understanding of the three types of unemployment and the various policies government can pursue to alleviate unemployment is developed. Students categorize examples of unemployed workers as structural, cyclical, or frictional unemployment.

TIME REQUIRED

One class period

MATERIALS

★ Activity/Visual 1, "Three Types of Unemployment" and Activity/Visual 2, "Government Policies/Programs to Reduce Unemployment"
★ Activity 1, "Examples of Unemployed Workers"

PROCEDURE

1. Tell students that losing a job may be a traumatic event for an individual. (According to some social scientists only the death of a spouse or close friend or going to jail is more stressful than losing a job.) Explain that, because of both the impact of unemployment on individuals and the impact of unemployment on the national economy as a result of lost production, government attempts to reduce unemployment through a variety of programs.

2. Use Activity/Visual 1, "Three Types of Unemployment," to explain to students the various types of unemployment. Ask students for some examples to determine their understanding of the concepts.

3. Distribute Activity 1, "Examples of Unemployed Workers," to individual students or small groups of students; ask them to fill in the first column indicating the type of unemployment experienced by each worker. Review student classifications to be certain they can distinguish between the various types of unemployment.

4. Have students return to the worksheet and identify government policies/programs that they would recommend to deal with the type of unemployment experienced by each of the workers. Have student list recommendations in the appropriate space.

5. Have students generalize about what the government can do about frictional unemployment, cyclical unemployment, and structural unemployment. Examples will include: government actions to handle frictional (short-term) unemployment are limited to helping these work-

ers quickly find another job. (Some frictional unemployment is inevitable as new workers enter the job market and workers move between jobs.) Government actions to handle cyclical unemployment tend to rely on macroeconomic policies: fiscal and monetary policies to stabilize the economy, end recessions, and promote job growth. Government policies to handle structural (long-term) unemployment are designed to retrain workers who have been displaced or create new employment opportunities where industries have closed. Compare their solutions to those outlined in Activity/Visual 2, "Government Policies/Programs to Reduce Unemployment." Be sure to remind the students that different types of government programs are needed to combat different types of unemployment.

CLOSURE

Review with students the definitions of the three types of unemployment and the government programs/policies to reduce unemployment.

ACTIVITY/VISUAL 1
THREE TYPES OF UNEMPLOYMENT

Frictional unemployment: Workers who are in the process of moving between jobs, entering the labor force for the first time, or reentering the labor force after a voluntary absence. This type of unemployment is usually of short duration.

Structural unemployment: Workers who are unable to accept available jobs because they lack the needed skills. This type of unemployment is usually of long duration.

Cyclical unemployment: Workers who are laid off when the overall economy suffers a downturn. They expect to be rehired when the economy improves.

ACTIVITY/VISUAL 2
GOVERNMENT POLICIES/PROGRAMS TO REDUCE UNEMPLOYMENT

FRICTIONAL UNEMPLOYMENT

- Job Information
- Employment Services

STRUCTURAL UNEMPLOYMENT

- Educational Subsidies
- Job Training/Retraining
- Wage Subsidies/Employment Tax Credits
- Equal Employment Opportunity Laws
- Public Service Employment

CYCLICAL UNEMPLOYMENT

- Fiscal Policy
- Monetary Policy
- Public Service Employment
- Wage Subsidies/Employment Tax Credits

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ACTIVITY 1
EXAMPLES OF UNEMPLOYED WORKERS

Name _____

Listed below are unemployed workers. Using the definitions of the three types of unemployment provided by your teacher, indicate whether the worker is an example of frictional, cyclical, or structural unemployment.

Then identify an appropriate government policy or program to help this unemployed worker. What generalizations can you make about the government policies/programs to reduce each of the three types of unemployment?

WORKERS	TYPE OF UNEMPLOYMENT	GOVERNMENT POLICY
1. A recent college graduate who is seeking her first job.		
2. A former steelworker for a firm that has closed an obsolete plant.		
3. A worker who has quit his job to move to a new town to be with his family.		
4. A carpenter who is laid off when housing construction declines because of high interest rates.		
5. An autoworker who is laid off because auto sales are down.		
6. A homemaker who decides to seek work outside the home and begins her job search.		
7. A telephone operator whose job is eliminated when the phone company installs new computer-based switching equipment.		
8. An oil worker who is laid off because the demand for petroleum declines.		

LESSON 12
WHY ISN'T INCOME DISTRIBUTED MORE EQUALLY?

INTRODUCTION

Relative social equality is often cited as a distinctive characteristic of American society. Our Declaration of Independence states that "... all men are created equal," and the American notion of democracy calls for equality of opportunity and equality before the law. Equality of income, however, is not guaranteed. Since the Great Depression of the 1930s, the question of how active the government should be in redistributing income has involved intense political debate.

In a market economy, an individual's income is determined in large part by the value of the output which he or she produces. Since all individuals do not possess equal physical and mental skills and abilities, or equal drive and ambition, it is unlikely that income will be distributed equally. Because markets sometimes fail to work properly, and for strictly humanitarian reasons, some redistribution of income by government may be socially desirable. However, income differentials reflecting differences in productivity provide powerful incentives for people to work harder and to make themselves more productive, and redistribution policies may act as disincentives.

CONCEPTS

Income Distribution
Economic Incentives
Role of Government

OBJECTIVES

◆ Identify some occupations that are paid relatively high median incomes and some that are paid relatively low median incomes

◆ Identify some reasons why different occupations are paid different incomes

◆ Examine data on the distribution of personal income in the United States and describe how this distribution has changed over time

◆ Identify some of the programs and policies used by the Federal government to redistribute income noting both the positive and negative effects

◆ Examine data on the movement of families within the distribution of income over time, and identify ways in which an individual can improve his or her earning potential through education and training, work effort, and risk taking

LESSON DESCRIPTION

On day one, students review a list of selected occupations and categorize them according to median income. They brainstorm a list of reasons for income differentials and then review a list of conventional economic explanations. They review data on the personal distribution of income in the U.S. since 1950 to see how this distribution has changed over time. On the second day, students discuss various programs and policies used by the Federal government to redistribute income, debating the pros and cons. Finally, they examine data on the movement of families within the distribution and consider ways in which an individual can improve his or her earning potential.

TIME REQUIRED

Two class periods

MATERIALS

★ One copy for each student of Activity 1, "Name That Income"
★ One copy for each student of Activity 2, "Median Incomes for Selected Occupations: 1992"
★ One transparency and one copy for each student of Activity/Visual 1, "Determinants of Income Differences"
■ One transparency and one copy for each student of Activity/Visual 2, "Distribution of Family Income in the United States"
■ One transparency and one copy for each student of Activity/Visual 3, "Movement of Families Within the Distribution of Income in the U.S."

★ all students–basic course material
■ average and above average students
● average and below average students

PROCEDURE

1. On the first day of the lesson ask the students to name some people (or occupational groups) they know or have heard about who have high incomes and some who have low incomes. Explain that often a person's income depends on that person's occupation. Have the students work in small groups to complete Activity 1. (You may need to explain that median income is one way of calculating an average; half the people in the occupation earn more than the median and half earn less than the median.)

2. Have the groups report their results. Distribute Activity 2 and compare the occupational groupings with those generated by the students. Have the class brainstorm a list of reasons why some people earn higher income than others. Distribute and display Activity/Visual 1 and discuss the conventional economic explanations for differences in incomes.

3. Distribute and display Activity/Visual 2 and explain that these data illustrate that money income in the U.S. is not equally distributed among families. (You may need to explain the procedure of dividing families into five equally sized groups called "quintiles"; and that money income is before taxes and includes government transfer payments such as welfare and Social Security.) Either display the inequality ratios over time for the U.S. or cover them up and ask the students to calculate them. (The inequality ratio is calculated by dividing the share of income received by the richest fifth of the families by the share received by the poorest fifth.) Ask the students to describe the changes in the distribution of income over time. (Income became more equally distributed during the 1950s and 1960s, in part because of government programs and more equal opportunities; since 1970 income has been more unequally distributed, in part because of an increase in the number of new entrants into the workforce, an increase in the number of families headed by unmarried females, and changing technology in production, which has increased the demand for and the income of educated workers.)

4. On the second day of the lesson, suggest that for the rest of the school year it will be your policy to have a more equal distribution of grades in the class and to guarantee that no student receives a failing grade. To achieve this you will take points away from students who earn As and Bs on exams, and give these points to the students who do not do as well. Ask what effect these policies are likely to have on study time.

5. Ask the students why society might want a more equal distribution of income. (For humanitarian reasons everyone should have a minimum standard of living; some people are unable to work because of illness or disability; markets don't always arrive at the best distribution because of discrimination, unequal opportunity, etc.) Explain that through a variety of programs and policies the government attempts to redistribute income. There are both pros and cons associated with these programs and policies. For example, unemployment compensation helps maintain some of the income of people (and their families) who lose their jobs; but the availability of unemployment compensation might serve as a disincentive for these people to find new jobs.

6. Divide the class into two groups and for the following income redistribution programs (and others they think of) assign one group to defend the program and the other to criticize it:
Social Security (protects the standard of living of retired people; takes current income away from young workers)
General Welfare (protects the standard of living of disadvantaged people and their families; results in higher taxes on productive workers, and may discourage people from seeking work)
Subsidies for Dairy Farmers (raise farmers' incomes and help protect small farmers; result in higher taxes and higher milk prices)
Progressive Taxes (raise government revenue by taxing those who can best afford to pay taxes; discourage people from earning income or saving to accumulate wealth)

7. Ask the students if they know of anyone whose income has risen significantly in the past few years or anyone whose income has fallen significantly in the past few years. Point out that the Inequality Ratio for 1990 as presented on Activity/Visual 2 is almost equal to the Inequality Ratio for 1950. Explain that because the overall

distribution of income changes only by small amounts over time, many people think that the rich will always be rich and the poor will always be poor. In fact, there is a significant amount of movement within the distribution of income; some families climb to higher quintiles and some families fall to lower quintiles each year. Distribute, display, and discuss Activity/Visual 3.

CLOSURE

Ask the students to think of strategies that would help an individual improve the likelihood of moving up in the distribution of income (more education and training, more work effort, more risk taking, etc.). What types of government programs and policies would promote these behaviors? Alternatively, you might ask the students to speculate about what unskilled, uneducated, low work effort people can expect in terms of the distribution of income.

ACTIVITY 1
NAME THAT INCOME

Name _____

Place each of the following occupations in the proper column based on your estimate of the median income for the occupation.

Bank Teller
Baseball Player (Major League)
Bricklayer
Bus Driver
Carpet Installer
Corporate CEO
Chemist (Bachelors Degree)
College Professor
Corporate Attorney
Dental Hygienist
Dentist
Engineer
Firefighter
Funeral Director
Pharmacist
Protestant Minister
Registered Nurse
Restaurant Manager
Retail Clerk
School Teacher
Social Worker
Surgeon
Vending Machine Servicer
Veterinarian

Median Income More than $50,000	Median Income $30,000–$50,000	Median Income Less than $30,000

ACTIVITY 2
MEDIAN INCOMES FOR SELECTED OCCUPATIONS: 1992

Name _____

OCCUPATION	MEDIAN INCOME
Corporate CEO	$1,174,398
Baseball Player (Major League)	1,116,946
Surgeon	200,000
Corporate Lawyer	134,000
Dentist	90,000
Engineer	69,750
Veterinarian	63,069
Funeral Director	59,574
College Professor	46,300
Pharmacist	45,000
Protestant Minister	44,000
Chemist (Bachelors Degree)	42,000
School Teacher	35,340
Registered Nurse	34,424
Firefighter	33,072
Dental Hygienist	31,668
Bricklayer	24,960
Restaurant Manager	21,736
Bus Driver	20,800
Social Worker (Bachelors Degree)	20,000
Carpet Installer	19,500
Vending Machine Servicer	15,870
Bank Teller	14,800
Retail Clerk	11,388

Source: *Occupational Outlook Handbook*, U.S. Department of Labor, 1994–95.

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ACTIVITY/VISUAL 1
DETERMINANTS OF INCOME DIFFERENCES

1. Value of the output produced; producers of products that are in high demand will usually earn more

2. Differences in ability

3. Education and other types of training

4. Work experience

5. Differences in intensity of work; some people work harder or work longer hours

6. Risk taking; risky ventures can yield large rewards as well as large losses

7. Compensating wage differentials; some jobs are more arduous than others, or more dangerous, or more unpleasant; financial incentives are sometimes offered to induce people to take these jobs

8. Inherited wealth

9. Discrimination; income can be adversely affected for people who are discriminated against because of race, gender, age, etc.

10. Luck

ACTIVITY/VISUAL 2
DISTRIBUTION OF FAMILY INCOME IN THE UNITED STATES
(Percentage of Money Income Received by Family Quintiles)

INCOME GROUP	1990	1980	1970	1960	1950
Lowest Fifth	4.6 %	5.2 %	5.4 %	4.8 %	4.5 %
Second Fifth	10.8	11.5	12.2	12.2	12.0
Middle Fifth	16.6	17.5	17.6	17.8	17.4
Fourth Fifth	23.8	24.3	23.8	24.0	23.5
Highest Fifth	44.3	41.5	40.9	41.3	42.6

U.S. INEQUALITY RATIO
(Share of highest fifth divided by share of lowest fifth)

1950 - 9.5
1960 - 8.6
1970 - 7.6
1980 - 8.0
1990 - 9.6

Source: 1990 and 1980–*Statistical Abstract of the United States*, 1991
1970 and 1960–*Statistical Abstract of the United States*, 1971
1950–*Statistical Abstract of the United States*, 1951

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ACTIVITY/VISUAL 3
MOVEMENT OF FAMILIES WITHIN THE DISTRIBUTION OF INCOME IN THE U.S.

According to the Institute for Social Research at the University of Michigan, more then 50% of the families in the top quintile of the distribution of income in 1971 had fallen to a lower quintile by 1978; and nearly half of those in the lowest quintile had risen to a higher quintile by 1978.

According to the U.S. Census Bureau, on average between 1984 and 1987, nearly 15.3% of all families moved up by at least one quintile, and 17.4% moved down by at least one quintile within the distribution of income each year.

According to the U.S. Treasury's Office of Tax Analysis and the Urban Institute, 86% of the families in the lowest quintile of the distribution of income in 1979 had climbed to higher quintiles by 1989.

LESSON 13
WHOSE INTEREST IS BEING SERVED?

INTRODUCTION

The Preamble of the U.S. Constitution states that the American governmental system was created to "...promote the general welfare." Yet, it seems that some government programs and services, while being paid for with taxes levied on the general population, provide benefits to only a small group of people. In these instances, for most people, the costs of these programs and services are higher than the benefits they receive (they yield negative net benefits). Why would their elected representatives vote for government programs that will cost them more than the benefits they will receive?

Some government programs are designed to address general interest issues. These programs (such as the enforcement of antitrust laws by the Federal government, and the provision of police and fire protection by local governments) yield benefits to a large number of people and spread the costs over a large number of people. Other government programs, however, are designed to address special interest issues. These programs (such as Federal farm subsidies, and local government support for senior citizen centers) yield large benefits for a small number of people. When the benefits or costs of a government program are concentrated among a small number of people this so-called "special interest group" will have a strong incentive to try to influence the votes of legislators; and elected representatives may find it in their best interests to engage in logrolling and vote for some programs with negative net benefits for their constituents in order to ensure passage of other programs with positive net benefits for their constituents.

CONCEPTS

Costs and Benefits of Government Programs
Special Interest Issue
General Interest Issue
Logrolling

OBJECTIVES

◆ Define a special interest issue as one in which the benefits (or costs) of a government program are concentrated among a small number of people and the costs (or benefits) are spread over a large number of people; and contrast this with a general interest issue in which both the benefits and the costs are spread over a large number of people

◆ Explain that when special interest issues are involved, logrolling (where two or more voters agree in advance to support each other's programs) can lead to the enactment of government programs that have negative net benefits for most people

◆ Recognize the difficulty of identifying the beneficiaries of government programs

LESSON DESCRIPTION

Students learn the difference between general interest and special interest issues. They play the roles of U.S. Representatives and, given information about benefits and costs, vote on enactment of government programs. Then they discuss several government programs and attempt to identify beneficiaries.

TIME REQUIRED

One class period

MATERIALS

★ One copy for each student of one of the three versions of Activity 1, "Role-playing Cards: A, B, C"

PROCEDURE

1. Ask the class to imagine that the water pressure is very low in their town. To correct the problem the town council decides to build a bigger pumping station. To get funds for this project the property tax is increased. Ask who benefits (most people) and who pays for this project (most people). This program could be described as addressing a general interest issue. Now ask the class to suppose that the town council votes to use property tax revenue to increase water pressure only in the northeast corner of the town. Ask who benefits (a small fraction of the people) and who

pays (most people) for this project. This program could be described as addressing a special interest issue.

2. Divide the students into groups of three. Distribute one of the three role-playing cards to each student. Ask each student to read his or her card to the other members of the group.

3. Tell the students that they will be voting on each of the two government programs described on their cards. Tell the students that they should vote for a program only if the benefits are greater than the costs for their constituents. Have each group conduct a vote on each of the two programs. Ask each group which of the programs was enacted. (Neither will pass because only Rep. Olson will vote for Program 1, and only Rep. Fernandez will vote for Program 2.)

4. Now tell the students that they will get a chance to vote again in a few minutes. In the meantime, if either of the two programs would yield large net benefits for their constituents (the benefits would far exceed the costs) they should try to negotiate with the other Representatives to see that it passes. They might consider voting for a program they don't want if this would lead to the approval of a program they do want. (Through this "logrolling," if Rep. Olson agrees to vote yes on Program 2 as long as Rep. Fernandez votes yes on Program 1, both programs will be enacted even though most people do not get net benefits from them.) Have each group conduct a second vote.

5. Discuss the results of each group's second vote to determine if logrolling occurred.

CLOSURE

Explain that because government programs can have both direct and indirect beneficiaries, identifying them and the amount of benefits received can sometimes be difficult. Use a few examples of government programs to illustrate this problem. (The Social Security program benefits retired people, but as a result, they are more financially independent, and this is a benefit for their children. Subsidies for the arts benefit artists, but everyone who enjoys the art also benefits. Public schools benefit the students who attend, but the general community also benefits if more young people are educated.)

ACTIVITY 1
ROLE-PLAYING CARDS (VERSION A)

Name _____

You are playing the role of Representative Olson.

Your district is located in a state in the upper-Midwest. The average age of your constituents is well below the national average in part because most people move away when they retire to get away from the cold winters. The leading industry in your district is dairy farming. In an attempt to win reelection you have promised to do everything you can to help farmers and to guarantee the survival of the family-run farm in America.

Program 1: Dairy Subsidy Program

Through this program dairy farmers who sell milk at a price below the price set by the Federal government receive payments from the government equal to the difference. Subsidy payments next year will total $40 billion. You estimate that farmers in your district will receive $40 million of this total. Taxes to pay for the subsidies and the higher milk prices that result from the program will cost your constituents about $1 million.

Program 2: Increases in Social Security Benefits

If this legislation passes, benefit payments to Social Security recipients will increase by $35 billion next year. Since there are few retired people in your district, only about $1 million of this increase will go to your constituents. The higher taxes needed to pay for these new benefits will cost your constituents about $5 million.

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ACTIVITY 1
ROLE-PLAYING CARDS (VERSION B)

Name _____

You are playing the role of Representative Fernandez.

Your district is located in a state in the Southeast. The leading industries in your district are tourism and the growing of citrus fruit. The average age of your constituents is well above the national average in part because many people move there when they retire to get away from the cold northern winters. In an attempt to win reelection you have promised to do everything you can to raise the living standards of elderly retired people.

Program 1: Dairy Subsidy Program

Through this program dairy farmers who sell milk at a price below the price set by the Federal government receive payments from the government equal to the difference. Subsidy payments next year will total $40 billion, but since there are no dairy farms in your district, none of this money will go to your constituents. Taxes to pay for the subsidies and the higher milk prices that result from the program will cost your constituents about $1 million.

Program 2: Increases in Social Security Benefits

If this legislation passes, benefit payments to Social Security recipients will increase by $35 billion next year. Since there are a lot of retired people in your district, some $50 million of this increase will go to your constituents. The higher taxes needed to pay for these new benefits will cost your constituents about $1 million.

ACTIVITY 1
ROLE-PLAYING CARDS (VERSION C)

Name _____

You are playing the role of Representative Miller.

Your district is located in a middle-Atlantic state. The leading industry in your district is the development of computer software. The average age of your constituents is about the same as the national average. In an attempt to win reelection you have promised to do everything you can to encourage the growth of high-tech industries.

Program 1: Dairy Subsidy Program

Through this program dairy farmers who sell milk at a price set by the Federal government receive payments from the government equal to the difference. Subsidy payments next year will total $40 billion, but since there are very few dairy farms in your district, only about $50 thousand of this money will go to your constituents. Taxes to pay for the subsidies and the higher milk prices that result from the program will cost your constituents about $1 million

Program 2: Increases in Social Security Benefits

If this legislation passes, benefit payments to social security recipients will increase by $35 billion next year. You estimate that about $500 thousand of this increase will go to your constituents. The higher taxes needed to pay for these new benefits will cost your constituents about $1 million.

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UNIT IV
PUBLIC POLICY IN THE GLOBAL ECONOMY

LESSON 14
DO ECONOMIC FORCES LEAD IMMIGRANTS TO THE UNITED STATES?

INTRODUCTION

The United States is a nation of immigrants. All of us came here from other nations or are descended from those who did. More than half a million legal immigrants and nearly two hundred thousand illegal entrants come to the United States every year. These immigrants have accounted for nearly one-quarter of the growth of the nation's population and the labor force over the past several decades. The Immigration Act of 1990 is now the basic law governing the admission of aliens to the United States and provides for annual limits of about 675,000 legal immigrants.

People immigrate to the United States for a variety of reasons including seeking religious freedom, seeking political asylum from tyranny, and the desire to improve their economic standard of living. However, in most years, only a small proportion of immigrants are seeking religious or political asylum. Most are striving to improve their standard of living. Economists explain U.S. immigration through cost-benefit analysis–weighing the individual's costs of leaving the home nation against the anticipated benefits of living in the U.S. When the person perceives the benefits of migrating to exceed the costs, he or she will do so.

CONCEPTS

Economic Incentives
Economic Decision Making through Cost/Benefit Analysis
Opportunity Cost

OBJECTIVES

◆ Explain that the major reason for immigrating to the United States is the pursuit of opportunities for a higher economic standard of living

◆ Identify the largest source nations of immigration to the United States

◆ Explain that a significantly higher level of personal income in the United States leads people to immigrate to the United States

LESSON DESCRIPTION

Students individually or in groups interview a recent adult immigrant to the United States, identifying his or her reasons for leaving the home nation and the reasons for coming to the U.S. The class views and discusses recent data on the major source nations of immigration to the United States, and some relevant economic data about each of these nations. Combining the interview with the economic data provided in class, the students construct and compare two lists–the benefits of migrating to the U.S. and the costs of doing so, each with an emphasis on economic reasons. The lesson concludes with the students developing a description and explanation of the type (and perhaps even some names) of nations that may be major sources of future immigration to the U.S.

TIME REQUIRED

One class period (after Procedure 1. is completed)

MATERIALS

★ One copy for each student of Activity 1, "Interview Questions"
★ One transparency of Activity/Visual 1, "Top Eight Source Countries and Their Income Per Capita for Immigrants in 1993"

PROCEDURE

1. Several days before the classroom lesson, explain to the class that in a few days they will be learning about the economic forces that lead immigrants to the United States. Distribute copies of Activity 1, "Interview Questions." Review the activity and give directions on how to use it as a guide for collecting and recording information. Help the students identify recent adult immigrants to be interviewed. Then have the students, individually or in small groups, conduct their interviews.

★ all students–basic course material
■ average and above average students
○ average and below average students

2. On the day for this lesson, begin the class with a discussion about the extent and reasons for immigration to the United States, using the information given above in the lesson introduction.

3. Have the students report on their experiences of interviewing recent immigrants. As the students report, develop two lists on the overhead, chalkboard, or easel paper–one of the costs of leaving the home nation, and one of the expected benefits of coming to the United States. Ask the students to take notes for use in upcoming group work.

4. Display an overhead transparency of Activity/Visual 1, "Top Eight Source Countries...". Explain to the class that Income Per Capita is the most common way of expressing and comparing the economic well-being of a country's population. Discuss the Income Per Capita levels in the various countries and help the students conclude that the average person in most of the source nations of the U.S. immigration is much poorer than the average U.S. citizen.

5. Have the students compare the impact of these income differentials on the decision to immigrate with the summarized results of the interviews, pointing out their similarities and differences.

6. Divide the class into eight cooperative learning groups, assigning each group one of the top eight immigration source nations from the overhead list. Have each group construct two lists: one consisting of the three or four major costs of immigrating to the United States, and the other of the three or four major expected benefits of immigrating to the United States. Based on these lists, have each group (representing a potential immigrant from the source nation) reach a consensus decision on whether or not to immigrate to the United States.

7. Have each group report on its lists and decision. Discuss the results, pointing out the importance of the economic factors.

CLOSURE

Have the students return to cooperative groups or work independently. Assign the students the task of developing a written description and explanation of the economic characteristics of countries that will likely be the major sources of immigration to the United States over the next five or so years. If specific countries are mentioned, be sure the students can verify that the characteristics indeed apply to the identified countries.

ACTIVITY 1
INTERVIEW QUESTIONS

Name _____

1. What was your home country? That is, from what country did you immigrate?

2. What did it cost you to leave your home country? That is, what good things did you have to leave behind?

   A. Personal, for example:
      Family
      Friends
      Religious Affiliations
      Property

   B. Political, for example
      Political Power (e.g., party membership, holding public office, etc.)

   C. Economic, for example
      Job
      Business and business contacts
      Assets (e.g., bank accounts, insurance policies, etc.)

3. Which two or three of the costs most inhibited your decision to immigrate?

4. What benefits did you believe you would realize by coming to the United States? That is, what did you think you would gain?

   A. Personal
      Family
      Friends
      Religious Affiliations
      Property

   B. Political
      Political Freedoms (e.g., rights to vote, assemble, petition, speak, write, etc.)
      Political Party Membership
      Public Offices Held

   C. Economic
      Job
      Business and business contacts
      Assets (e.g., bank accounts, insurance policies, etc.)

5. Which two or three of the expected benefits were the most important in your decision to immigrate?

ACTIVITY/VISUAL 1
TOP EIGHT SOURCE COUNTRIES AND THEIR INCOME PER CAPITA FOR IMMIGRANTS IN 1993

	Number of Immigrants*	Income Per Capita
UNITED STATES	NA	$23,400
1. Mexico	109,027	3,600
2. China, Mainland	65,552	370
3. Philippines	63,189	860
4. Vietnam	59,613	230
5. Dominican Republic	44,886	1,120
6. India	40,021	270
7. Poland	27,729	9,000
8. El Salvador	25,517	1,060
Other	407,452	NA
Total	880,014	NA

*legal entrants

Sources: U.S. Department of Justice, Immigration and Naturalization Service, "Immigrants Admitted by Country and Birth and Major Category of Admission-Fiscal Year 1993", Detail Run 401-Total, June 1994.

From *Civics and Government: Focus on Economics*, © National Council on Economic Education, New York, NY

LESSON 15
WHY WOULD GOVERNMENTS LIMIT INTERNATIONAL TRADE?

INTRODUCTION

The trading of goods and services is one of the most important interactions among people in different nations. Economists believe that trade offers significant gains for all nations involved. While international trade can increase most people's standard of living, certain groups may be hurt by the effects of international competition. These groups may convince their governments to restrict the free flow of goods and services into their countries through a variety of devices known as "barriers to trade." These include import quotas, tariffs, and nontariff barriers.

The worldwide volume of international trade has increased dramatically since the end of World War II, and the United States has become the world's biggest importer and exporter. While persistent Japanese trade surpluses in recent years have caused some Americans to question the fairness and the benefits of international trade, the passage of the North American Free Trade Agreement (NAFTA) in 1993 and the General Agreement on Tariffs and Trade (GATT) Accords in 1994 by the U.S. Congress indicate that belief in the benefits of international trade is still strong. However, most nations, including the United States, still maintain a variety of trade barriers in the name of protecting some of their domestic markets, producers, and workers against the competitive pressures of international trade.

CONCEPTS

Barriers to Trade
Import Quotas
Tariffs
Nontariff Barriers

OBJECTIVES

◆ Explain how international trade can increase production and raise living standards of the trading partners

◆ Explain how some groups are harmed by competition from foreign-produced imports

◆ Analyze data on the international trade patterns of the United States to identify our leading international trading partners and products

◆ Describe and explain the impact of import quotas, tariffs, and nontariff barriers on international trade

◆ List five reasons why a nation's government might impose barriers against imported products

LESSON DESCRIPTION

In preparation for the lesson, students identify imported products which they and their families buy. On the first day of the lesson, the class discusses the benefits of specialization and trade among nations, with an emphasis on who benefits and who may be harmed. They review data on U.S. international trade patterns. On the second day, they examine three types of barriers that can be erected by governments to restrict imports of foreign-made products and discuss a partial list of existing import barriers imposed by the U.S. government. After understanding the major arguments for and against government-imposed trade barriers, they debate an international trade barrier question arising from a hypothetical situation presented in the lesson.

TIME REQUIRED

Two class periods

MATERIALS

★ One transparency of Activity/Visual 1, "International Trade in Selected Countries"
★ One copy for each student of Activity 1, "U.S. Merchandise Imports and Exports: 1992"
★ One copy for each student of Activity 2, "U.S. Merchandise Imports and Exports by Category: 1992"
★ One copy for each student of Activity 3, "Types of International Trade Barriers"

★ all students–basic course material
■ average and above average students
○ average and below average students

★ One copy for each student of Activity 4, "Some of the Barriers to International Trade Imposed by the U.S. Government"
★ One copy for each student of Activity 5, "Arguments For and Against Government Imposed Barriers to International Trade"
★ One copy for each student of Activity 6, "Trade Barriers Debate"

PROCEDURE

1. A day or two before beginning this lesson, ask the students to look around their homes to identify and make a list of products that were imported from another country. (VCRs, TVs, and other consumer electronics; automobiles; clothing; etc.) Ask them also to make a list of companies in their communities that sell products in another country.

2. On the first day of the lesson, discuss with the class how specialization in the production of specific goods and services, particularly among nations, results in better use of resources, more goods and services being produced, and a wider variety of products for consumers, often at lower prices.

3. Solicit responses from the students about who benefits and more important, who is likely to be harmed by this specialization and trade. (Consumers of imported products and the producers of products for export benefit. Workers and owners of domestic firms that face additional competition from imported products are harmed.) Point out that those harmed can appeal to their government to impose trade barriers (restrictions on imported products) for protection against the foreign competition.

4. Display Activity/Visual 1 and ask the class to identify the world's biggest international trader (U.S.). Point out that some smaller nations import and export a larger portion of their total output than does the U.S.

5. Distribute copies of Activities 1 and 2 and ask each student to write a brief essay identifying our major trading partner (Canada); the products for which we import more than we export (consumer goods, energy, automobiles); and the products for which we export more than we import (food, industrial materials, capital equipment).

6. On the second day of the lesson, distribute copies of Activity 3. Review with the class the descriptions of the three major types of international trade barriers.

7. Distribute copies of Activity 4. Have the students read the activity and speculate as to why various products are on the list.

8. Distribute Activity 5. Have the students read and discuss the activity. Ask the students to put these arguments in their own terms and provide their views on whether the "for" or "against" argument for each is more important.

9. Divide the class into an even number of groups (2, 4, or 6). Distribute Activity 6. Have the students read the activity situation and question. Assign half of the groups to prepare their arguments in favor of trade barriers, and the other half to prepare their arguments against.

CLOSURE

Assign or have each group select a spokesperson to present in debate format their arguments. Conduct one or more debates, depending on the number of groups.

ACTIVITY/VISUAL 1
INTERNATIONAL TRADE IN SELECTED COUNTRIES

Country	GDP*	Exports*	% of GDP	Imports*	% of GDP
Canada	618	133	22%	125	20%
France	1,050	271	26%	250	24%
Germany	1,331	392	30%	375	28%
Italy	968	178	18%	189	20%
Japan	2,549	361	14%	241	10%
Netherlands	263	139	53%	130	49%
United Kingdom	980	190	19%	222	23%
United States	6,379	449	7%	582	9%

*Billions of 1993 U.S. Dollars

Note: Gross Domestic Product (GDP) is the market value of goods and services produced in a country during a year.

Source: *World Fact Book, 1994;* U.S. Central Intelligence Agency.

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ACTIVITY 1

U.S. MERCHANDISE IMPORTS AND EXPORTS: 1992

Name _____

(Millions of dollars)

OUR EXPORTS WENT TO:

Country	Amount
Canada	$91,000
Japan	46,900
OPEC	20,700
Western Europe	114,500
All Other Countries	166,900

OUR IMPORTS CAME FROM:

Country	Amount
Canada	$100,900
Japan	97,400
OPEC	33,700
Western Europe	111,300
All Other Countries	193,000

Source: *Economic Report of the President*, February 1994.

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ACTIVITY 2
U.S. MERCHANDISE IMPORTS AND EXPORTS BY CATEGORY: 1992

Name _____

(Millions of Dollars)

Category	Exports	Imports
Agriculture and Food	40,275	27,857
Industrial Supplies and Materials	96,075	83,405
Capital Equipment	176,864	134,194
Energy Products	13,682	56,812
Automotive Vehicles and Parts	47,079	91,779
Consumer Goods	50,381	122,974

Source: *Economic Report of the President*, February 1994.

From *Civics and Government: Focus on Economics*, © National Council on Economic Education, New York, NY

ACTIVITY 3
TYPES OF INTERNATIONAL TRADE BARRIERS

Name _____

IMPORT QUOTAS

An import quota specifies the maximum amount of a product which may be imported in any given period of time. Importing additional amounts of the foreign products is prohibited once the quota has been filled.

TARIFFS

A tariff is a tax on an imported product. It increases the price of the imported foreign-made product relative to competing domestic products, thus making it more difficult for the imported product to be sold in domestic markets.

NONTARIFF BARRIERS

A nontariff barrier refers to standards for product quality and safety, import licensing requirements, or bureaucratic procedures for importing a product. Setting unreasonably high standards that apply to a foreign-produced product, or restricting the issuance of licenses to import the product, or tying up the process for getting the foreign-made product across the border and to the domestic markets with "red tape," effectively limits the amount of the product imported.

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ACTIVITY 4
SOME OF THE BARRIERS TO INTERNATIONAL TRADE IMPOSED BY THE U.S. GOVERNMENT

Name _____

IMPORT QUOTAS ON

Alcoholic Beverages
Animal Feeds
Brooms
Chocolate Candy and Confectioneries
Cheddar Cheese
Cotton
Ice Cream
Juices
Milk and Cream
Peanuts
Textiles
Tuna Fish

TARIFFS ON

Alcoholic Beverages
Aluminum
Bed Linen and Bedspreads
Candy and Confectionery
Chemicals
Copper
Cotton Raw, Fabrics and Waste
Fish
Footwear
Fur
Glassware
Gloves
Grain
Handkerchiefs
Hats and Headgear
Hosiery
Iron and Steel
Machines, Equipment, and Tools
Motion-picture Films
Paper
Plastic Bags and Plates
Pulp
Refrigeration Equipment
Rubber Products
Seeds
Textile Fiber Products
Tires and Tubes for Tires
Tobacco
Watches and Watch Movements
Wearing Apparel
Wood Products
Wool and Hair, Raw and Fabrics
Woven Fabrics of Man-made Fibers

NONTARIFF BARRIERS

QUALITY/SAFETY STANDARDS

Cheese, Milk, and Dairy Products
Fruits, Vegetables, and Nuts
Livestock, Animals, and Meat Products
Motor Vehicles

LICENSING REQUIREMENTS

Arms, Ammunition, and Explosives
Radioactive Materials and Nuclear Reactors
Biological Drugs

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ACTIVITY 5
ARGUMENTS FOR AND AGAINST GOVERNMENT IMPOSED BARRIERS TO INTERNATIONAL TRADE

Name _____

Increase Domestic Employment

For: Restricting imports of foreign-produced goods increase spending on domestically produced goods, thus boosting the domestic levels of income, production and employment.

Against: While imports may eliminate some domestic jobs, they create others such as in sales and management. Domestic trade barriers may invite retaliation from trading partners, reducing jobs in export industries, thus making everyone worse off.

Protect against Cheap Foreign Labor

For: Domestic firms and workers must be shielded from the need to compete with countries where wages are low. Otherwise, cheap imports will flood domestic markets, prices of domestic goods will decline, and the domestic wages of workers will be pulled down, reducing living standards.

Against: When rich and poor voluntarily trade, both benefit. Domestic consumers gain from being able to buy goods they want at lower prices. The domestic standard of living rises when more, lower priced goods are available. Further, wages often are based on worker productivity. Domestic wages may be higher because the workers are more productive, in which case domestic firms and their workers would not be at a competitive disadvantage.

Protect against "Dumping"

For: Domestic firms need to be protected from foreign producers which "dump" their goods in domestic markets by selling at prices less than the cost of producing them. This could occur because the foreign firms are attempting to drive domestic competitors out of the market.

Against: Dumping is a legitimate concern and is prohibited. But since there are very few cases that have been proven, widespread permanent barriers cannot be justified.

Protect "Infant" Industries

For: Protection is needed to allow new domestic industries to establish themselves. Young domestic industries need to be shielded from the competition of more mature and efficient foreign firms so they have a chance to develop, become efficient, and compete.

Against: Rather than imposing trade barriers, there are better ways to help new industries, such as government subsidies. Further, these barriers may persist even after the industry matures.

Military Self-Sufficiency

For: Protection is needed to preserve or strengthen industries producing goods and materials essential for defense or war. In an uncertain world, economic self-sufficiency in these strategic goods and materials to meet military objectives is more important than other goals.

Against: : This self-sufficiency argument, while valid in some cases, is open to serious abuse. Virtually every industry could claim they contribute to national security and ask to have barriers imposed to protect them.

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ACTIVITY 6
TRADE BARRIERS DEBATE

Name _____

SITUATION:

Several small start-up companies in the United States are developing a completely new satellite communications technology. It is expected that the services from this new communications system will allow people and institutions all over the world to be in instant voice and visual contact with one another at a fraction of the present cost, yet with much higher quality. The technology in these systems will have many valuable applications for individuals, businesses, and governments, including important uses by the Defense Department and intelligence agencies. It is anticipated that as many as a million, mostly high paying jobs will result from manufacturing, selling, operating, and servicing the systems, as the U.S. firms in this new high-tech industry develop and grow.

Unfortunately for these U.S. firms, a large multinational consortium, representing businesses and governments of six other nations, has had a headstart of several years in developing the same technology. The consortium is beginning to manufacture the components of their version of the new satellite communications system in Singapore, where the average wage rate is about half the average in the U.S. They also have begun to establish the necessary distribution network of sales and repair services for their system in a number of countries. The consortium is looking to the United States as a primary market in which to sell its systems.

It has been learned that in order to maintain its lead over potential U.S. competitors and to gain a foothold in U.S. markets, the consortium may be planning to offer their system in America at a price that will be at least 10 percent below the cost of producing it, and at about half what they will charge in Europe and the Far East.

QUESTION:

Should the Federal Government erect barriers against the importation of the satellite communications system being built in Singapore?

LESSON 16
HOW CAN ECONOMIC SANCTIONS BE PART OF U.S. FOREIGN POLICY?

INTRODUCTION

From Pericles' decrees limiting the entry of foreign products into the marketplace of Athens in 432 B.C. to the United States consideration of imposing of economic sanctions on China in 1995, countries have attempted to use economic policy as a part of their overall foreign policy. The use of restrictive trade policies, or economic sanctions, has increased dramatically since 1914. Hufbauer, Schott, and Elliott in *Economic Sanctions Reconsidered* document and study 116 cases of economic sanctions as a part of foreign policy goals from 1914–1990. According to the authors, "Sanctions are part and parcel of international diplomacy, a tool for coercing [another government] into a particular avenue of response." The main types of economic sanctions are the limitation of exports to another country, restrictions on imports from another country, and financial sanctions, including the reduction of foreign aid.

A series of foreign policy objectives to be sought through economic and trade policies can be identified. These range from modest changes in policy, such as the United States efforts to convince the USSR to liberalize Jewish immigration in the mid-seventies, destabilizing governments, disrupting military adventures, and impairing military potential, to major policy changes, such as the economic boycott of South Africa to end apartheid. However, many foreign policy experts question the effectiveness of trade and other economic sanctions.

CONCEPTS

Role of Government

Economic Sanctions

OBJECTIVES

◆ Define economic sanctions

◆ Explain how economic sanctions can be used as a part of a country's foreign policy

◆ Identify examples of the United States use of economic sanctions as a part of its foreign policy

◆ Use a list of recommendations to explain when economic sanctions can be used successfully

LESSON DESCRIPTION

Students examine the data on U.S. imports, exports, and foreign aid, and explore how economic sanctions can be used to attain overall U.S. foreign policy goals. In small groups they do research to determine how the United States has used economic sanctions from 1980 to the present and analyze the success of using economic policy as a part of foreign policy.

TIME REQUIRED

Two Class Periods, plus time for research

MATERIALS

★ Activities 1, "Selected Examples of United States Use of Economic Sanctions 1980-1990," 2, "Limitations on the Use of Sanctions"

★ Activities/Visuals 1, "U.S. Foreign Economic Involvement 1990," 2, "Types of Economic Sanctions," 3, "Foreign Policy Goals"

PROCEDURE

Day One

1. Show students Activity/Visual 1 "U.S. Foreign Economic Involvement, 1990." Discuss with them how economic restrictions imposed by the government can be a part of U.S. foreign policy because of the large amount of public and private U.S. international economic involvement.

2. Use Activity/Visual 2 "Economic Sanctions," to review the four types of economic sanctions. Some examples of economic sanctions imposed by the U.S. would include the suggested tariff increase on Chinese imports in 1995, the boycott of Haiti in 1991, the economic sanctions imposed on the

★ all students–basic course material
■ average and above average students
○ average and below average students

Soviet Union after it invaded Afghanistan in 1976, and the Cuban boycott that begin in 1960.

3. Display Activity/Visual 3 "Foreign Policy Goals" to develop students understanding of the purpose of economic sanctions. Be sure that students grasp the broad range of foreign policy goals.

A. Change target country's policies in a specific way.
   Examples: foster human rights in China, 1989; stop terrorism; halt spread of nuclear weapons and fuel; force recognition of U.S. copyrights.
B. Destabilize the target country.
   Examples: boycott of Cuba to put pressure on Castro, 1960 to the present; boycott of Panama to force Manuel Noriega from office, 1987–1990.
C. Disrupt a minor military adventure.
   Example: U.S. sanctions against Iraq over the Kuwait controversy, 1990.
D. Impair the military potential of the target country.
   Example: Sanctions imposed during World Wars I & II.
E. Change target country's policies in a major way.
   Example: U.S. sanctions on South Africa to end apartheid.

Use current examples to further develop student understanding of how countries use economic sanctions to influence major policies.

4. Distribute Activity 1 "Selected Examples of U.S. Use of Economic Sanctions." Divide class into small groups; assign, or have students select, one example for a group report using the following format for reports.

1. Countries Involved
2. Duration
3. Type of Sanctions (see Visual 2)
4. U.S. Foreign Policy Goals (see Visual 3)
5. Success or failure

5. Allow groups to plan their research activities. (For current information about economic sanctions, contact Office of Foreign Assets Control, U.S. Department of the Treasury, Washington D.C. 20220, (202) 622-2520.)

Day Two

1. After groups have had sufficient time to prepare their reports, have each group make an oral presentation to the rest of the class.
2. Conclude the presentations by having students generalize about the types of sanctions used in these examples, the goals of these policies, and whether or not the sanctions were a successful part of U.S. foreign policy.

CLOSURE

Distribute Activity 2, "Limitations on the Use of Sanctions," to the students. Have the students compare the conclusions in their reports to the limitations listed in the activity.

ACTIVITY 1
SELECTED EXAMPLES OF UNITED STATES USE OF ECONOMIC SANCTIONS

Name _____

USE OF ECONOMIC SANCTIONS–1980-1990

Year Imposed	*Target Country*
1981	USSR
1983	Grenada
1984	Iran
1985	South Africa
1986	Syria
1987	Panama
1987	Haiti
1988	Somalia
1989	China
1990	Iraq

Source: *Economic Sanctions Reconsidered*, Gary Clyde Hufbauer, Jeffrey J. Schott, and Kimberly Ann Elliott. Washington, D.C.: Institute for International Economics, 1990. Reproduced with permission.

CURRENT USE OF ECONOMIC SANCTIONS - JANUARY 1995

Angola	Libya
Cuba	Montenegro
Federal Republic of Yugoslavia	North Korea
Iran	Serbia
Iraq	

Source: *Office of Foreign Asset Control*, U.S. Treasury Department.

 From *Civics and Government: Focus on Economics*, © National Council on Economic Education, New York, NY

ACTIVITY 2
LIMITATIONS ON THE USE OF SANCTIONS

Name _____

1. Sanctions imposed may be inadequate to the task.

   - goals may be unattainable
   - sanctions may be too weak

2. Sanctions may create their own antidotes.

   - various groups in target country may unite in support of government
   - country may find new economic allies

3. Sanctions may prompt powerful or wealthy allies of the target country to assume the role of "black knight".

   - other countries may come to the aid of the target country

4. Sanctions may alienate allies abroad and business interests at home.

   - allies may not cooperate in enforcing sanctions
   - some impacted businesses/industries may not agree to sanctions

Source: Gary Clyde Hufbauer, Jeffrey J. Schott, and Kimberly Ann Elliott. *Economic Sanctions Reconsidered.* Washington, D.C.: Institute for International Economics, 1990. Reproduced with permission.

ACTIVITY/VISUAL 1
U.S. FOREIGN ECONOMIC INVOLVEMENT, 1990

U.S. Direct Private Investment Abroad	$ 424,086,000,000
U.S. Foreign Aid and Economic Assistance	$ 6,964,000,000
U.S. Foreign Economic & Military Aid Programs	$ 15,727,000,000
U.S. Foreign Grants & Credits	$ 14,297,000,000
U.S. Exports	$ 394,044,900,000
U.S. Imports	$495,042,000,000

Source: *Statistical Abstract of the United States*, 1993.

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ACTIVITY/VISUAL 2
TYPES OF ECONOMIC SANCTIONS

Limiting Exports To Target Country

Restricting Imports From Target Country

Restricting Transfers Of Money And Other Financial Assets To Target Country

Reducing Aid To Target Country

Source: *Economic Sanctions Reconsidered.* Gary Clyde Hufbauer, Jeffrey J. Schott, and Kimberly Ann Elliott. Washington, D.C.: Institute for International Economics, 1990. Reproduced with permission.

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ACTIVITY/VISUAL 3
FOREIGN POLICY GOALS

1. Change target-country policies in a specific way.

2. Destabilize the target government.

3. Disrupt a minor military adventure.

4. Impair the military potential of the target country.

5. Change target-country policies in a major way.

Source: *Economic Sanctions Reconsidered.* Gary Clyde Hufbauer, Jeffrey J. Schott, and Kimberly Ann Elliott. Washington, D.C.: Institute for International Economics, 1990. Reproduced with permission.

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SAMPLE TEST QUESTIONS

LESSON 1
HOW HAS THE CONSTITUTION SHAPED THE ECONOMIC SYSTEM IN THE UNITED STATES?

1. Robert Johnson likes working with computers. After he graduates from high school, he plans to go to school where he can learn how to produce and market new computer software. He thinks he will be successful and make a good living in this career. Which one or more of the six characteristics of a market economy make this possible?

   Possible Answers: Freedom of Enterprise and Choice; Motive of Self-Interest; Competition.

2. Which economic provision is found in the Constitution of The People's Republic of China, but not in the U.S. Constitution?

   A. "No person shall...be deprived of life, liberty, or property, without due process of law,..."

   B. [Government] "shall have the power to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries;..."

   ✔C. "The state may...buy, requisition or nationalize land and other means of production..."

   D. "The right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated,..."

LESSON 2
ECONOMIC AND POLITICAL FREEDOM

1. Since the 1980s China has been introducing more economic changes. Although China still uses forced labor, there is more economic freedom. Individuals now make more economic decisions; the government now makes fewer economic decisions.

   Predict how these economic changes may influence the political system in China. Explain why you made your prediction.

   Answer: Economic freedom, according to some experts, is a prerequisite for political freedom. If so, one would expect that increased economic freedoms will help to bring about increased political freedoms. Also, if the Chinese government respected human rights more, there would be fewer political prisoners and less forced labor.

2. Which of the following statements is true?

   A. There is no relationship between the amount of political freedom and economic freedom in a country.

   ✔C. Economic freedom in a country helps to promote political freedom, but doesn't guarantee it.

   B. If individuals in a country make economic decisions, they will also have the right to make individual political decisions.

   D. Individual decision-making is important in a political democracy, but not in a market economy.

LESSON 3
WHAT ARE THE COSTS AND BENEFITS OF VOTING

1. The voter participation rate in U.S. presidential elections

   A. Is higher than the participation rates in most other democracies.

   ✔B. Has ranged between 50% and 70% since the 1950's.

   C. Is influenced by compulsory voting requirements.

   D. Has substantially decreased during the past four decades.

2. An economic explanation for why voters participate in presidential elections is:

   A. Large amounts of money are spent for television advertising.

   B. Special interest groups make contributions to political parties.

   ✔C. Benefits of voting exceed the costs of voting.

   D. Labor unions endorse candidates.

3. Which of the following would probably decrease voter participation in presidential elections?

   A. Lifetime registration.

   B. Get out the vote campaigns.

   C. Paying citizens to vote

   ✔D. More limited voting hours.

4. You are asked to develop a plan to increase the voter turnout rate of senior citizens, 65 years and older.
   Explain how cost/benefit analysis could be used to select strategies to get senior citizens to vote. Identify two strategies that you would use. Explain how each example illustrates the idea of cost/benefit analysis:

   Answer: To encourage voter turnout, one would need to reduce the costs of voting and/or increase the benefits.

   Examples of reducing the costs might include allowing senior citizens to vote electronically at home, providing free rides to the polls, making ballots easier to read, or changing election day from November to June.

   Examples of increasing the benefits might include paying senior citizens to vote, a publicity campaign where well-known senior citizens encourage people to vote, having grand-children remind their grandparents to vote, having a raffle to award prizes to those who vote.

LESSON 4
WHAT ARE THE ECONOMIC FUNCTIONS OF THE GOVERNMENT?

1. Programs such as Social Security and Medicare are examples of which of the following economic functions of government?

   ✔A. Redistributing income.

   B. Providing public goods and services.

   C. Maintaining legal and social framework.

   D. Dealing with externalities.

2. The economic function, stabilizing the nation's economy, is carried out by which level of government?

   A. City

   B. County

   ✔C. Federal

   D. State

LESSON 5
HOW HAS FEDERAL GOVERNMENT SPENDING CHANGED?

1. Of the following two government expenditures–unemployment compensation and the construction of a bridge:

   A. they are both government purchases

   B. they are both government transfer payments

   C. the first is a purchase and the second is a transfer

   ✔D. the first is a transfer and the second is a purchase

2. Federal government expenditures can be categorized as either purchases, transfer payments, or interest payments. Describe how these three categories of expenditures have changed as a portion of Federal government spending since 1960.

   Possible Answer: Purchases have declined in importance from 61.4% to 25.5%; transfer payments have increased from 31.1% to 60.4%; and interest payments have increased from 7.5% to 14.1%.

LESSON 6
HOW CAN CHANGES IN THE FEDERAL GOVERNMENT'S BUDGET STABILIZE THE ECONOMY?

1. James Brown loses his job as a waiter at a local restaurant. His employer explains that the job was eliminated because of the recent large increase in local residential property taxes. James knows that the restaurant pays commercial property taxes not residential property taxes. Explain how an increase in residential property taxes could result in the elimination of James' job.

   Possible Answer: a property tax increase reduces the after-tax income of homeowners who then spend less on such items as restaurant meals which in turn results in fewer jobs for waiters.

2. The most appropriate fiscal policy for the Federal government to use to reduce unemployment would be to:

   A. increase taxes, decrease government spending

   ✔B. decrease taxes, increase government spending

   C. increase both taxes and government spending

   D. decrease both taxes and government spending

LESSON 7
WHO SHOULD CONTROL THE MONEY SUPPLY—THE U.S. CONGRESS OR THE FEDERAL RESERVE?

1. The largest component of the money supply in the United States is:

   A. currency

   ✔B. checking accounts

   C. gold

   D. credit cards

2. The money supply increases whenever:

   A. prices rise

   B. the Federal government increases its spending

   ✔C. banks make new loans

   D. businesses sell more output

3. Give a reason why the money supply should be controlled by Congress, and a reason why the money supply should be controlled by the Federal Reserve.

   Possible Answers: The money supply should be controlled by Congress because the Constitution specifies this, and changes in the money supply affect people's economic well-being and should be under the direction of accountable, elected officials. The money supply should be controlled by the Federal Reserve to ensure that changes in the money supply are based on objective, technical criteria and not political considerations.

LESSON 8
TO WHAT EXTENT DO ECONOMIC CONDITIONS DETERMINE THE OUTCOME OF PRESIDENTIAL ELECTIONS?

1. The misery index is calculated by adding:

   A. the poverty rate and the cost of living

   ✔B. the unemployment rate and the inflation rate

   C. the growth rate and the inflation rate

   D. the growth rate and the unemployment rate

LESSON 9
HOW ARE ECONOMIC SOLUTIONS TO POLLUTION DIFFERENT FROM POLITICAL SOLUTIONS?

1. Economists are more likely to favor which of the following pollution solutions?

   A. Passing new tougher federal guidelines.

   B. Expanding the role of the Environmental Protection Agency.

   ✔C. Creating markets for pollution rights.

   D. Increasing state and local fines for pollutions.

2. Which of the following examples best illustrates the concept of "externality"?

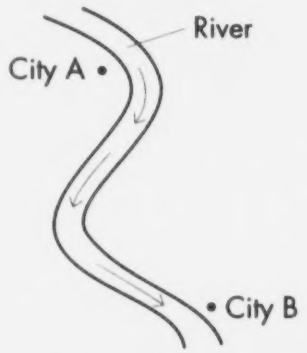
   A. A teenager buys a music video.

   B. A teenager buys a new T-shirt.

   C. A teenager buys a ticket to a rock concert.

   ✔D. A teenager buys a tank of gasoline.

3. Look at the following map and consider the following situation.



The sewage treatment plant of City A occasionally breaks down and dumps raw sewage into the river. City B, downstream from City A, gets its drinking water from the river.

Explain this situation using the term "externality." What are some of the spillover benefits, what are some of the spillover costs? Which city gets the benefits; which city pays the costs.

Answer: Spillover benefits for City A would include the lower costs they pay for sewage treatment, lower property taxes, or spending tax dollars on other goods and services instead of for sewage treatment plans.

Spillover costs for City B include removing City A's sewage from the drinking water, pollution that City B didn't create. The costs also would include the need for a large water treatment plant, higher water bills, or the goods and services they could have purchased with the dollars that must be spent for extra water treatment.

LESSON 10
WHY DOES THE FEDERAL GOVERNMENT GIVE MONEY TO STATE AND LOCAL GOVERNMENT?

1. Suppose that the Federal government wants to enhance crime prevention by increasing the number of state police officers. It cannot simply pass a law requiring the state to employ more police officers. Explain how the Federal government could accomplish its objective.

   Possible Answers: The Federal government could provide states with intergovernmental grants to cover all or part of the costs of hiring the additional officers; or it could withhold funds from existing intergovernmental grants if states refuse to hire additional police officers.

LESSON 11
WHAT CAN THE GOVERNMENT DO ABOUT UNEMPLOYMENT?

1. An unemployed college graduate looking for his first job is an example of:

   A. Seasonal unemployment

   B. Structural unemployment

   C. Cyclical unemployment

   ✔D. Frictional unemployment

2. Which of the following types of unemployment is usually long term?

   A. Seasonal unemployment

   ✔ B. Structural unemployment

   C. Frictional unemployment

   D. Cyclical unemployment

3. Read the following statement about government solutions for unemployment.

   There are fewer government programs and policies to solve the problem of frictional unemployment than there are policies and programs to solve the problem of structural unemployment.

   Explain why this difference exists.

   Answer: Frictional unemployment is short term.

   Structural unemployment is long term.

   Frictional unemployment may be desirable as workers move between jobs.

   There may be concentrations of structurally unemployed workers in a given area or industry.

LESSON 12
WHY ISN'T INCOME DISTRIBUTED MORE EQUALLY?

1. In a market economy, the major determinant of a person's income is:

   A. union membership

   ✔B. the value of the output he or she produces

   C. political connections

   D. number of hours worked

2. Aid to families with Dependent Children is a government program designed to redistribute income toward poor families. List two of the positive effects of this program and two of the negative effects.

   Possible Answers: Positive Effects: raises the living standards of recipients; protects health and welfare of children. Negative Effects: Acts as a disincentive to seek employment; increases the tax burden on working people.

LESSON 13
WHOSE INTEREST IS BEING SERVED?

1. Which of the following government programs is most likely to involve widespread costs and concentrated benefits?

   A. public education

   B. national defense

   ✔C. tariffs on imported computer chips

   D. space exploration

2. The Federal Government provides grants to low and middle income college students. Who, other than the students and their families, benefit from these grants?

   Possible Answers: Colleges and universities; textbook publishers; businesses that serve college communities; employers who recruit college graduates.

LESSON 14
DO ECONOMIC FORCES LEAD IMMIGRANTS TO THE UNITED STATES?

1. Mexico is a source nation of the largest number of legal immigrants to the United States. The next three largest source nations are all in:

   A. Latin America

   B. Africa

   C. Europe

   ✔D. Asia

2. The major reason immigrants come to the U.S. is that they are seeking:

   A. asylum from political persecution.

   B. religious freedom.

   ✔C. a higher economic standard of living.

   D. reunion with family and friends.

LESSON 15
WHY WOULD GOVERNMENTS LIMIT INTERNATIONAL TRADE?

1. A tariff is:

   ✔A. an excise tax on an imported product

   B. a standard of product quality for an imported product

   C. a limit on the amount of a product which may be imported

   D. a list of products that may not be imported

2. If the U.S. Government imposed a tariff on imported shoes, who would be likely to benefit the most?

   ✔A. U.S. shoe producers

   B. U.S. shoe consumers

   C. foreign shoe producers

   D. all of the above

LESSON 16
HOW CAN ECONOMIC SANCTIONS BE PART OF U.S. FOREIGN POLICY?

1. During the 1980s, the United States used economic sanctions against which of the following countries?

   A. Taiwan

   B. Romania

   ✔C. South Africa

   D. Egypt

2. Economic sanctions include all of the following except?

   A. Reducing foreign aid to a country.

   B. Restricting imports from a country.

   ✔C. Restricting immigration from a country.

   D. Restricting transfers of money to a country.

3. U.S. economic sanctions against another country may not succeed because:

   A. The federal government has no power to enforce them.

   B. Economic sanctions are seldom supported by the American public.

   C. The United Nations will reject economic policies in favor of military action.

   ✔D. The sanction may be too weak to have an impact on the other country.

4. Imagine that you are a foreign policy advisor to the President of the United States who is considering using economic sanctions against another country.

   Identify three precautions you would want the President to consider before imposing sanctions. Why would you want the President to consider these precautions?

   Answer: Three of the following precautions should be included in the student's response.

   1. The sanctions may be inadequate, too weak to change behavior of the other country.

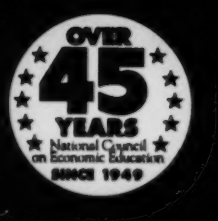
   2. Sanctions may unify forces in the other country and force them to work together to oppose sanctions.

   3. Other countries may come to the rescue of the other country.

   4. Sanctions may alienate our allies.

   5. U.S. business interests may be hurt by sanctions and resist complying with them.

   Because of these problems, economic sanctions may be ineffective.



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